THE BOOTS COMPANY

Report and Accounts

for the year ended 31st March 1992

The Boots Company PLC
Head Office
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Our objective is to maximise the value of the Company for the benefit of its shareholders.

We will do so:
– by building on our position as one of the UK's leading retailers in our chosen markets.
– by investing in the research, development, manufacturing and marketing of innovative prescription pharmaceuticals and consumer healthcare products throughout the world.
– through enterprising development and management of our property assets.

While vigorously pursuing our commercial interests we will, at all times, seek to enhance our reputation as a well managed, ethical and socially responsible Company.

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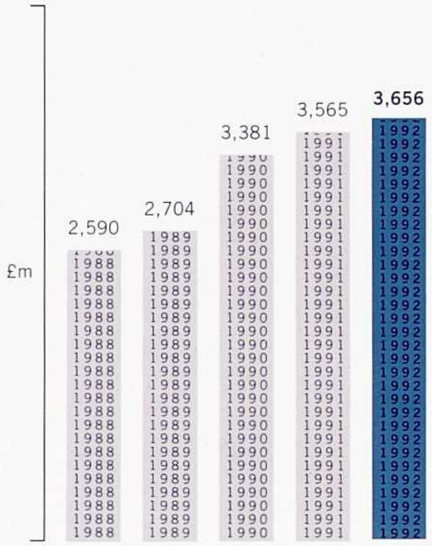
Group Financial Highlights

for the year ended 31st March 1992

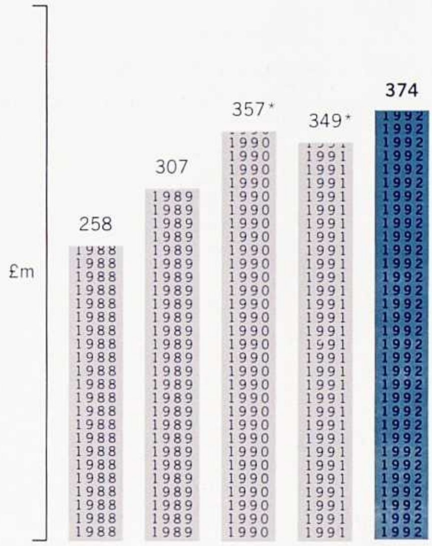
	1992 £m	1991 £m	% change on 1991
Turnover	**3655·7**	3565·3	+2·5
Profit on ordinary activities before taxation	**374·2**	349·2	+7·2
Profit on ordinary activities after taxation	**264·5**	240·2	+10·1
Capital expenditure	**172·7**	164·8	+4·8
Research and development	**58·9**	53·7	+9·7
Earnings per share	**26·4p**	24·2p	+9·1
Dividends per share	**12·4p**	11·6p	+6·9

The comparative profit and loss account and earnings per share for the year ended 31st March 1991 have been restated to include a charge for supplemental interest on convertible capital bonds, net of tax relief, of £6·2m.

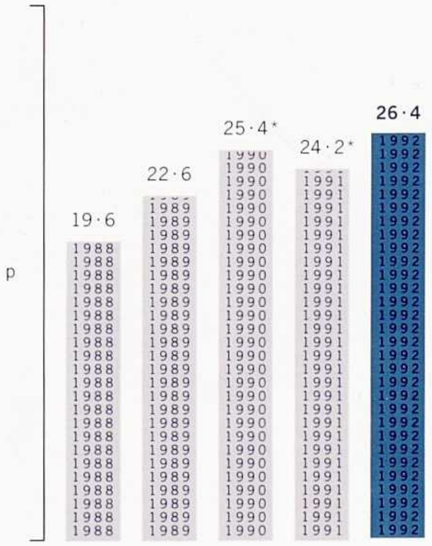
Turnover £m



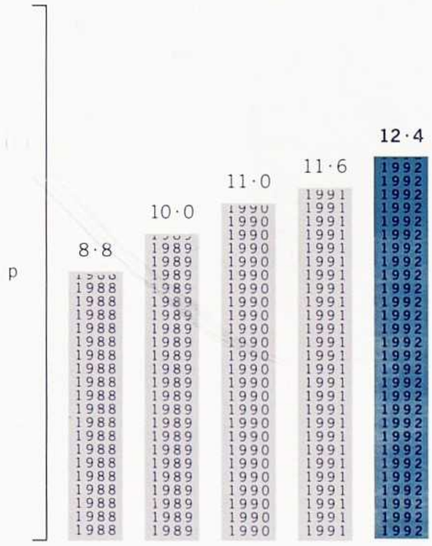
Profit before tax £m



Earnings per share (pence)



Dividend per share (pence)



*Restated to reflect a charge for supplemental interest on the £155m convertible capital bonds (1991 £9·2m, 1990 £1·5m; effect on Earnings per share 1991 0·7p, 1990 0·1p)

Chairman's Statement

A profit before tax of £374·2m, an increase on last year of 7·2%, has been achieved in the second year of a very tough economic environment, most particularly in the UK where this has affected our retail businesses.

The Company has generated total cash of £68m, after increased investment in the capital expenditure, research and development, and marketing, essential for our continued success. Our R & D investment has increased by 9·7% over the previous year, and we expect further increases of at least this order in 1992/93.

We are all increasingly conscious of the broader socio economic environment in which we operate. Generating greater value for our shareholders is a proper and laudable objective for our Company but we must also be sensitive to the responsibility we bear for the impact of our activities on many aspects of business, social and political life. That sense of responsibility is an important part of our heritage—indeed Boots' high reputation as a socially responsible, ethical and caring company has existed for over 100 years and we are determined that it should be upheld.

Justifiably to maintain, and where possible progress, that reputation requires us to have a well focused understanding of our business purpose, and to make public the values to which we subscribe. We have felt it appropriate at this stage in our development clearly to state this business purpose. We do so on the first page of this report; our values and policies with regard to our responsibilities to the environment, the community, and our employees are set out on pages 26 and 27.

The accountability of the Board of Directors to shareholders is always uppermost in my mind as Chairman. The Board of The Boots Company consists of able and experienced executives, together with non-executive directors who play significant roles in industry and commerce in their own right. We rely heavily on the contribution of this strong non-executive team, who form the membership of the Board committees responsible for audit and remuneration, and sit on our Social Responsibilities Committee. The non-executive directors have access to all pertinent information and I am confident that they are well placed to help secure the interests of investors and other Company stakeholders.

I am pleased to note that most of the proposals recommended by the Committee on Financial Aspects of Corporate Governance chaired by Sir Adrian Cadbury are reflected in our current policies and procedures.

During the year the Remuneration Committee of the Board agreed to new performance-based arrangements for executive directors, and these are detailed on page 53. The Company is committed to the principle of performance based reward, and we continue to review how best to relate improvement in shareholder value to remuneration structures.

It is perhaps relevant to add that the Boots Pension Fund is administered quite separately by Trustees including staff representatives. The assets are managed by independent agents. The Directors are conscious of the Company's obligation to ensure that the liabilities of the Fund can always be met.

I can again report with pleasure that management and staff have worked hard to achieve the result for the year and I would like to thank them for their dedication and commitment to the Company.

The Boots Company operates in global markets, and as such is affected by economic factors not only in the UK. However with the emergent recovery in the UK economy, and our own continuing drive for innovation and ever greater focus, I am confident that the Company is very well placed to continue its performance improvement.

Christopher Benson

Sir Christopher Benson
Chairman

Chief Executive's Review

Group sales at £3,655·7m increased 2·5% and profit at £374·2m increased 7·2%. Our main retail business, Boots The Chemists, turned in an excellent performance, particularly when viewed against the retail sector overall. Profit at £246·2m was up 7·6%, on a sales increase of 4·7%. Core businesses such as Healthcare and Personal Care performed well, although Home and Leisure, and Sound Vision, were less good.

Our long-term investment in the business, the development of added value merchandise, capital expenditure on store refurbishment, and management reorganisation have paid off. Profit in Boots The Chemists today is two and a half times that of five years ago, giving us a current real profit to sales ratio of 10%—among the best in major high street retailing.

An extensive store refurbishment programme and investment in information systems have clearly helped. EPOS and Direct Product Profitability (DPP) give management the ability precisely to control their business, and plan future development. We are transferring the skills and lessons learned from BTC to our other retail businesses, where we expect to make significant performance advances.

Sales in Halfords were of course affected by the general economic climate and in particular by the decline in car sales. Sales of accessories and consumables, such as radios, seat covers, shampoos and polishes were depressed. We have however restructured the management completely, and the business is now divided into three distinct profit centres—servicing, out of town superstores and high street stores.

Systems have been substantially upgraded, and inventory rationalised in some areas, and expanded in others. The reorganisation has provided much greater focus to a retail operation which has a powerful name and is very well accepted by consumers.

In decorating and DIY, lower sales resulted from heavy discounting by major competitors, and this has affected both the structure of the market and consumers' price perceptions. A. G. Stanley (FADS and Homestyle by FADS) were, however, able to out perform the market. Investment in sales and profit information by product will enable an aggressive realignment of the business which will increase profitability in future years.

New stock systems are already benefiting the key process of inventory rationalisation in Do It All, our joint venture with W.H. Smith, and other benefits of the merger are beginning to show through. More work remains to be done however, particularly on merchandise, and we continue to draw on experience gained in other retail sectors.

Analysis of the Childrens World business led to the introduction of smaller store formats and we plan a steady roll out of these, building carefully on initial evidence of improved performance.

Analysis leading to investment and improved systems is also the picture in Boots Opticians, where there has been an excellent result. Our systems embrace centralised patient records, and in-practice frame and lens dispensing. The optical market is itself showing some signs of recovery after the removal of free NHS eye tests two years ago.

Investment in Research and Development is essential for the success of our pharmaceutical interests. Expenditure over the last five years has almost doubled, with the increase last year being almost 10%. Much of this expenditure is on Manoplax, but research continues in a number of other therapeutic areas concentrated particularly on mental illness, inflammation and immune-mediated diseases, diabetes and thyroid disease.

Pharmaceuticals had another good year. Profit of £120·8m was up 5%. If we remove currency effects it rose by 13%.

Our success in the US with Synthroid and our income from US licensees contributed to this result, along with good results from our anti-inflammatory products, Brufen and Froben. Crookes, our consumer healthcare business in the UK, also performed well.

We are confident that applications for approval of Manoplax, our cardiovascular product for the treatment of congestive heart failure, will be successful. Therefore we are making heavy revenue investment in preparation for the launch of the product, particularly on recruiting and training medical representatives in the US.

Capital is being invested in manufacturing plants in the US for ibuprofen, and in the UK for flurbiprofen and flosequinan (Manoplax).

Boots Properties continues to be very successful. Our approach to property development has been cautious and we have used the opportunity of a depressed market to improve our property portfolio.

Generally, in assessing current business and investment for the future we are taking a more radical approach. All existing businesses and all new investments must be value creating, thus generating more than the cost of capital. This philosophy is an integral part of the strategic planning process of the group.

The business is being managed for its cash generating potential which will secure the Company's future, making funds available for reinvestment and the payment of dividends, thereby enhancing shareholder value.

Management restructuring and added business focus have also paid handsome dividends and there are further opportunities in this regard. Most importantly, we continue to invest in our people. We aim to recruit, train, and motivate the best and our results are a consequence of their dedication and hard work.

The Company remains cash positive, and total net borrowings were £362m at 31st March 1992. The debt/equity ratio has been reduced from 37% to 25%, and the net interest charge from £65·1m to £43·1m.

The Directors have proposed an 8% increase in the final dividend—the 25th consecutive increase.

Following the year end, the share price increased to a level which has allowed Boots Finance Ltd. to require conversion of all remaining 6% convertible capital bonds. As a result, £113m shown as borrowings in the year end balance sheet is, at the time of writing, expected to be converted and exchanged for ordinary shares of the parent company. Adjusting for this conversion, the debt/equity ratio at the year end would have been 16%. We have also charged against profits £8·0m of supplemental interest on the bonds which will not now be payable. The bonds have, therefore, worked as intended, providing permanent finance at a reasonable cost.

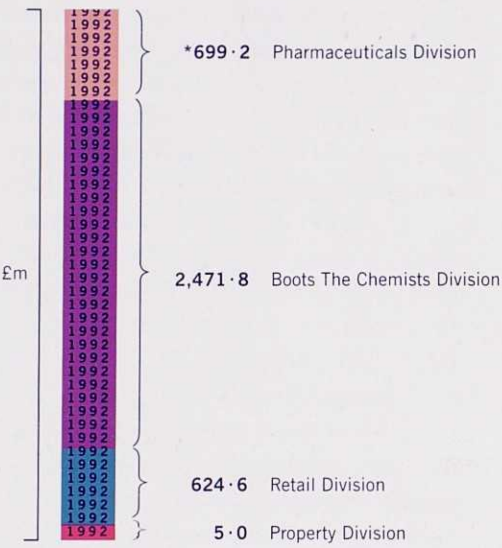
We conclude the year with a strong balance sheet which will allow us to continue profitable investment in our businesses.

In general we view the current market with cautious optimism. Economic recovery will be slow. However we expect with the benefit of our improved systems and controls, and investment, to reap further benefit with the upturn in the economic cycle.

Sir James Blyth
Chief Executive

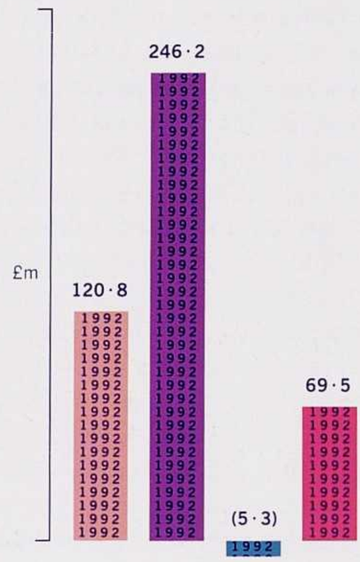
The Company Today

Turnover
For the year ended 31st March 1992 £3,655·7m



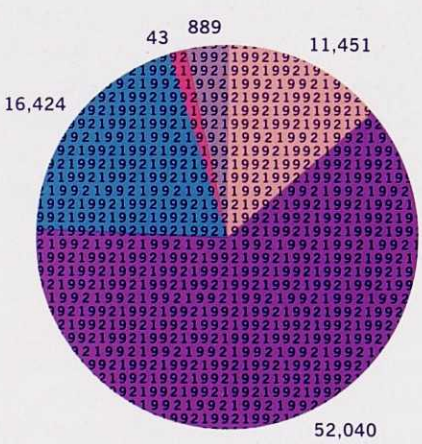
*Includes £144·9m inter-divisional sales to Boots The Chemists

Profit
For the year ended 31st March 1992 £374·2m

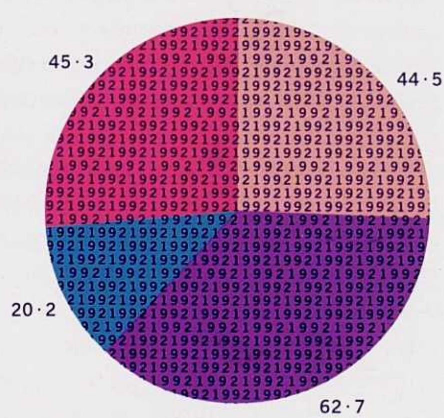


Net interest and corporate costs (£57·0m)

Number of employees
Average number during 1991/92
Total 80,847



Capital expenditure
Total £172·7m



- Pharmaceuticals Division
- Boots The Chemists Division
- Retail Division
- Property Division
- Central

Boots The Chemists Division

Boots The Chemists has 1,085 stores with a total sales area of 514,000 square metres.

The division is managed through two principal chains:

There are 840 'Small Stores' with a sales area per store of up to 600 square metres. These concentrate on the core business areas of health and beauty.

'Large Stores' total 230 with sales area per store of up to 4,300 square metres. In addition to health and beauty, Large Stores also include sound vision, cookshop, leisure and home merchandise.

There are also 15 free-standing Photo Centres.

Boots The Chemists is market leader in many areas of its business including healthcare, cosmetics, toiletries, baby consumables, films and film processing.

Retail Division

Retail Division encompasses the following retail businesses:

Boots Opticians The second largest chain of opticians in the UK, with 300 practices.

Childrens World An edge-of-town operation with a wide range of children's products from toys to clothing, currently with 26 stores.

Halfords The largest retailer of car parts and accessories and cycles. Halfords is also the largest car servicing organisation in the country. Currently there are 254 High Street and 172 out-of-town Superstores.

A G Stanley The largest retailer of home decorating materials through FADS with 358 stores. A new development of Homestyle by FADS includes home enhancement products, currently with 52 stores.

Overseas Retail Sephora in France—perfumery and cosmetics retailing with 38 stores.

Do It All A 50/50 joint venture company with 228 stores formed by merging Payless DIY and W H Smith Do It All.

Pharmaceuticals Division

The Division researches and develops, manufactures and markets prescription pharmaceuticals, and consumer products.

The major products are:

Ibuprofen Prescription pharmaceutical (Brufen). Over-the-counter (Nurofen).

Flurbiprofen Prescription pharmaceutical (Froben).

Dothiepin Prescription pharmaceutical (Prothiaden).

Levothyroxine US prescription pharmaceutical (Synthroid).

A range of over-the-counter consumer products includes Strepsils, Nurofen, Dequadin, Sweetex, Optrex, Mycil, E45 and Farley.

A wide range of products is developed and manufactured for Boots The Chemists.

There are four manufacturing sites in the UK, and 20 overseas companies many of which have their own manufacturing units.

Property Division

Formed in April 1989 to optimise returns from the Company's substantial UK property portfolio.

The strategy of Boots Properties is to be a disciplined and systematic investment and development company operating only in market sectors where it has competitive advantage.

The Division is a profit centre charging rent to all tenants, including Boots The Chemists, Retail and Pharmaceuticals Divisions.

The Division actively manages disposals and investments to improve the value of the property portfolio. Its development activities are mainly concentrated in the retail sector.

Boots The Chemists Division "We have once again produced highly commendable results, most notably in our core business areas of Health and Beauty, Personal Care, Baby and Food. This has been achieved in spite of a very depressed retail market.

Our policy is to offer superior products and quality of service in all our business areas." **Gordon Hourston** Managing Director

Sales at £2,471·8m increased 4·7% and profit at £246·2m increased 7·6%.

Gross margins have again increased by 1·2 percentage points.

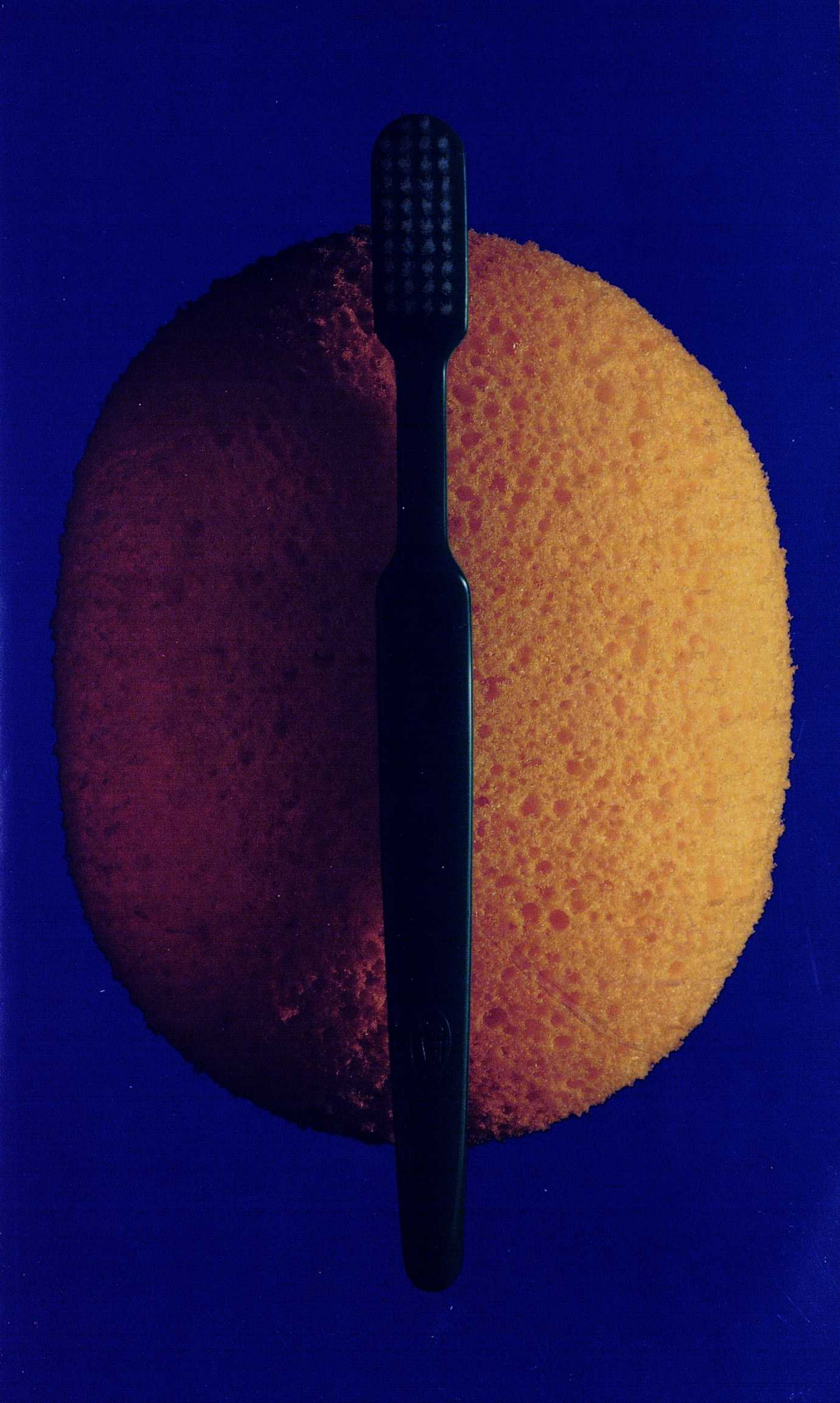
The results reflect the impact of a merchandise policy focusing the business, and concentrating on the introduction of added value lines, particularly in own brand which now represents 42% of sales. Considerable further investment has been made in store design and information systems, the latter having given us the means precisely to control the business.

In Healthcare, sales during the year increased 12%. This has been achieved in several ways. During the year we have moved general sales list medicines, which do not require supervision by a pharmacist, to open self-selection displays in many stores. This has dramatically improved sales and productivity. The service at the chemist counter has also benefited from reduced customer congestion.

The number of NHS prescription items dispensed increased by over 6% to 55 million in the year. Part of this increase is due to the continued expansion of our residential home dispensing scheme which now operates in over 3,500 residential homes. In addition we have introduced a service to collect repeat prescriptions from general practitioners.

Whereas the cosmetics and fragrance markets have been adversely affected by the economy, our Personal Care business continues to expand both in sales and profit. Many added value lines have been introduced during the year. Natural Collection sales are now over £34m a year, a new Total Care toothpaste in our dental range was a first in the market place, and hair products, particularly our duo formulation combining shampoo and conditioner, have been an outstanding success.

Although the suncare market was less buoyant in 1991, we achieved very good sales during the year and



introduced new formulations. Boots The Chemists is the number one retailer for suncare products and our own brand Soltan leads the market.

Baby toiletries and food products produced some significant sales increases. A repackaged and reformulated basic baby toiletry range produced sales of over £17m and is now the leading baby product range in Boots The Chemists. The newly introduced toddler foods, the first introduced into the UK market, have been an outstanding success.

Food had another successful year with over 330 product introductions focused on healthy eating. Own brand products now represent 60% of food sales.

Shapers, the Boots brand of calorie reduced foods, covering the complete range from sweeteners through drinks to sandwiches and slimmer meals, has produced sales of £23m.

Sound Vision, Leisure and Home sales have suffered in the year. However our offer of imaginative, attractive merchandise with a strong gift appeal has been well accepted by customers.

We have been particularly successful with greetings cards during the year with sales up 15%. In Sound Vision, pre-recorded video and computer games software have produced significant results, particularly at Christmas. We continue to be the leading retailer of films and photoprocessing with minilabs offering a one hour developing and printing service now installed in over 400 stores.

We continue to invest in a programme of updating and refurbishing stores to offer the right shopping environment to our customers. For all stores the Health, Beauty and Photocentre businesses will be integrated into an increasingly distinctive and recognisable format which will offer merchandise, service and information of a quality which is not matched by competitors.

Investment in information systems plays an increasingly important role. EPOS will be installed in all stores by Christmas this year (90% of sales already go through EPOS tills). In addition we are well advanced in implementing automatic stock replenishment which will bring further benefits such as increases in store productivity, a reduction in stock investment and hence lower working capital. Distribution costs will also be reduced.

Boots The Chemists is the major retailer of over-the-counter medicines in the UK. The comprehensive range of Boots brand products includes a unique range of children's medicines, made with natural flavours and free from sugar and artificial colours.

Boots has the largest consumer products development laboratory in Europe, with particular skills in the development of cosmetics and toiletries. Boots The Chemists is the leading UK retailer in this market with a number of major own brand products.

Baby departments are synonymous with chemists. Boots The Chemists sell a wide variety of own brand products for the 0-5 age group, including baby foods, toiletries, nappies, together with clothing, educational toys and safety products.

Boots The Chemists market healthy, nutritious, superb tasting foods, including food supplements, special diet and slimming foods, of which the Boots 'Shapers' brand is one of the UK's leading ranges of low calorie foods.

Retail Division "Some of our major businesses in the division have been severely affected by the economy and lack of discretionary spending.

Considerable investment has been put into the business by way of management systems, merchandise development and product marketing, all of which will bring returns in the future."

Keith Ackroyd Managing Director

Overall sales at £624·6m increased by nearly 6% on a comparative basis. The loss of £5·3m resulted from difficult trading conditions in Halfords, Childrens World and the joint venture Do It All.

Halfords

The business has been affected by the severe down-turn in the car market and by the depressed demand for cycles. Additional factors were the immaturity of Superstore retail space and the unprofitability of the new Service Centres. Halfords made a loss of £10·5m.

Aggressive action to improve price competitiveness was taken early in the year. This was successful and Halfords has secured a stronger market position.

The main focus of activity has been the establishment of the infrastructure required, in both management and systems, to realise the future profit potential of the business.

Successful trials confirmed the importance of car parts to the new Superstore concept and their potential for increased sales. New parts departments are being introduced in all Superstores with expanded inventory, rapid special order back-up and new ranges of workshop equipment and specialist tools.

Despite the poor performance of the last year, we remain confident of the future potential for Halfords.

Boots Opticians

Boots Opticians returned excellent results in a recovering market place with sales at £84·3m, an increase of 14%, and profit at £5·5m increased 37%.

The three new large practices opened during the year performed well both operationally and financially. These practices offer a superior choice of frames, a one hour service, and comprehensive optical health screening. They will provide the basis for a phased roll out of this format.

Childrens World

Sales increased 16%. The new smaller store concept was particularly successful and forms the pattern for all new openings.

Vigorous cost control measures increased operating efficiencies in store. With further increases in sales, a profitable operation will result, although margins suffered in the year.

A G Stanley—Homestyle by FADS and FADS The Decorating Specialists

Sales at £110·9m dropped by 3% and profit at £6·2m declined 35%.

Heavy discounting by DIY operators affected sales and profit, and over 35% of properties were subject to their 5 year rent review this year, which affected net profit.

Despite this, we continued the aggressive development of the chain, and with good margin management and vigorous cost controls the impact of adverse factors on profit was minimised.

The Homestyle format was further rolled out and an additional 10 stores were opened this year. The High Street FADS stores continue to be reconfigured, with elements of the Homestyle concept being introduced in some of the larger stores. Early results are very encouraging.

Sephora (France)

Sales at £59m increased 3·5% and the business made a small profit.

We have had major successes during the year, attracting new fine fragrance agencies. Management has been restructured, and a new EPOS system and a centralised warehouse installed. Operating efficiency improvements are already showing through.

Do It All Ltd.

The joint company with W H Smith has been operating since August 1990.

Most of the tasks of integrating the two businesses have been completed, although there are many benefits from inventory rationalisation still to come.

Profits were affected by the reorganisation, the recession and the severe discounting activity of other major DIY operators. Do It All has responded with its own vigorous promotions which have led to a restoration of market share but margins have suffered.

A new trading concept was piloted in 9 stores. Early results are encouraging, paving the way for a further number of test stores to be opened from August onwards.

Boots Opticians is the second largest optical retailer in the UK with 300 outlets. It provides a full professional service from eye examinations to the dispensing of frames, lenses and contact lenses.

Childrens World is a unique edge-of-town retailing concept in the UK, selling everything for children in an exciting environment. Fashionable baby and children's clothing forms a major part of the store.

Motor parts, accessories and cycles are the key focus for High Street and out of town Superstores, where Halfords are market leaders. The wide range of cycle accessories is particularly successful.

Do It All, the joint venture with W H Smith, now has 228 stores in the UK, selling a wide range of DIY products. New store designs which are project focused have been successfully piloted.

Pharmaceuticals Division "The increase in sales and profits is against a very competitive world market for prescription pharmaceuticals and healthcare consumer products.

In developing new products we strive to maximise competitive advantage through line extensions."

Dr Eric Cliffe Managing Director

Divisional sales at £699·2m increased by over 11%, and profit at £120·8m increased by 5%. At comparative exchange rates the increase in profit was 13%.

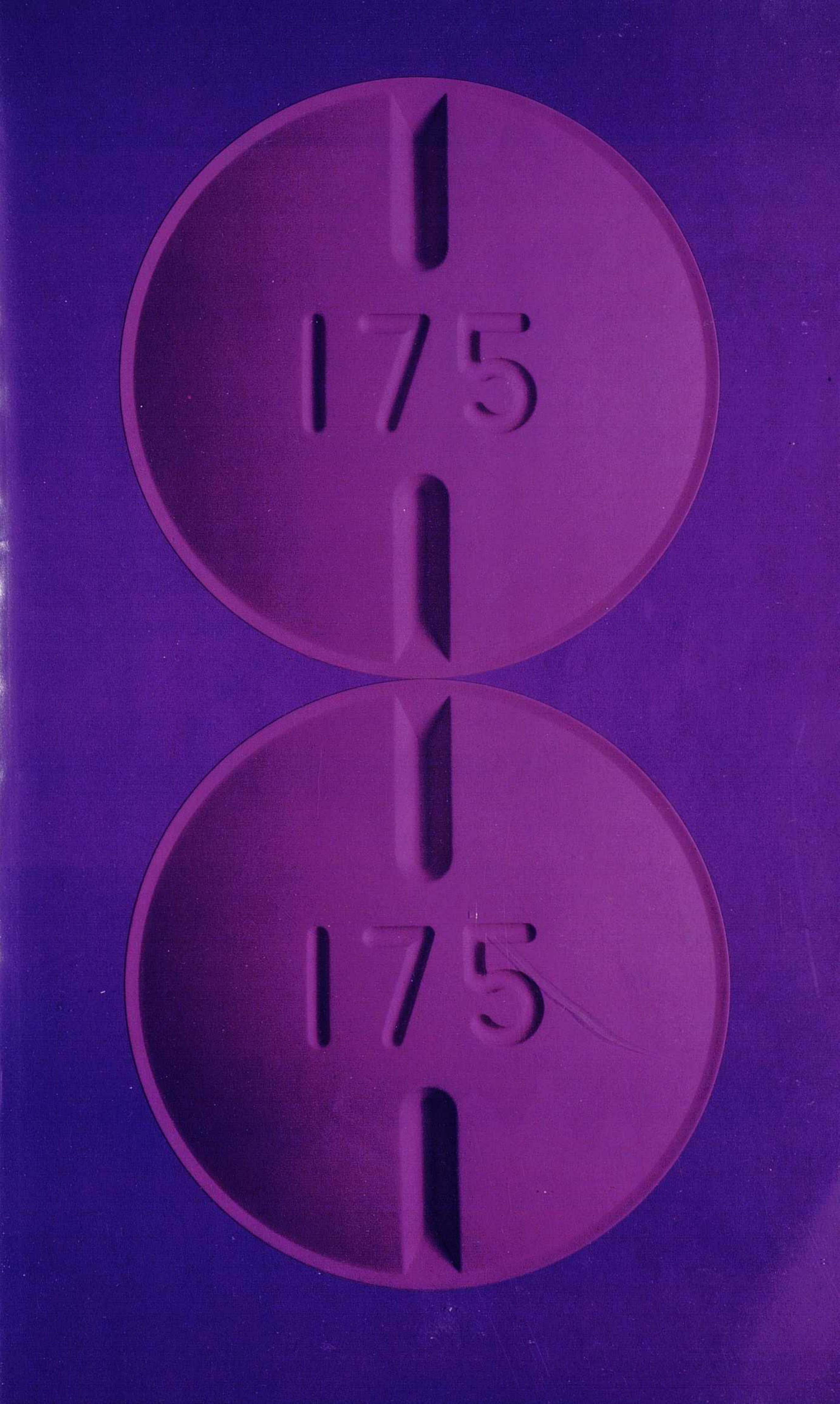
The trading highlights of the year were the continued excellent progress in North America and the improved sales and profits in the UK from Crookes Healthcare.

In the US Synthroid, our thyroid replacement therapy, increased sales in volume. Value sales increased by 25%. Synthroid now represents 75% of the US synthetic thyroid replacement market. Licence income from Upjohn for Ansaid (flurbiprofen) has again increased due to its continued success in the North American anti-inflammatory market, of which it now has almost 10%. However these royalties are likely to cease soon when the US patent expires.

Our leading position in anti-inflammatories, with our Boots researched products ibuprofen and flurbiprofen, is being maintained through continued development and marketing of line extensions to the Brufen and Froben product ranges. The launch of Brufen Retard (a once daily formulation) has resulted in a return to growth of total Brufen sales, particularly in the UK.

Flurbiprofen sales continue to increase in all major markets including Japan, where a plaster type poultice product manufactured under licence now represents 30% of this non-steroidal market segment. This provides us with significant raw material sales and licence income. Work is well advanced to support registration application in a number of European markets.

To support the increased business for anti-inflammatories we are presently commissioning a major extension to our flurbiprofen plant at Cramlington, north of Newcastle. We are also shortly to commence commissioning our 3,500 tonne joint venture ibuprofen plant in Texas.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Our product candidate Manoplax (flosequinan) is progressing satisfactorily through the registration process in major markets. In the US, the FDA Cardio-Renal Advisory Committee in October 1991 recommended approval of Manoplax for the treatment of congestive heart failure in patients who are intolerant to ACE inhibitors.

We are hopeful that the first approvals of Manoplax will be granted during 1992-93, and we are already investing heavily in preparations for the launch, into the rapidly expanding congestive heart failure market, both in marketing infrastructure and production facilities.

Crookes UK sales increased by 20% with significant growth in all product categories and we have continued to consolidate our position as the leading supplier of consumer healthcare products in the UK. The new brands, Mycil and Dequa acquired from Medeva in October 1990, are benefiting from improved marketing and distribution through Crookes Healthcare.

Worldwide our brands of Nurofen and Strepsils continue to grow.

Nurofen continues to increase market share in the UK with sales now in excess of £10m per annum. In France it has been approved for non-prescription sale. The product is now available for sale in most European markets.

Boots licensee for OTC ibuprofen in the US, American Home Products, had another successful year with the Advil brand achieving an 11% market share. Licence income to Boots has consequently increased, but again, this licence comes to an end in 1994.

Strepsils, available in over 90 markets, continues to grow, achieving sales of £33m.

Pharmaceuticals Division has manufacturing facilities in 13 countries. The main production plants are in the UK where Boots The Chemists continues to be the major customer. The product development and manufacturing link with Boots The Chemists enables us to respond rapidly to changing market conditions and is therefore a major strength for the group.

The Division is undergoing significant changes in management so that there will be three business units focused on prescription pharmaceuticals, consumer products and manufacturing. This increases accountability, and facilitates improved resource planning. This reorganisation is designed to help increase, over time, the cash generation of the individual businesses and the consequent return on capital.

Brufen is a leading international prescription product for the treatment of rheumatism and other painful conditions. The active ingredient of Brufen is ibuprofen, a product of Boots own research.

Prothiaden, first sold by Boots in 1969, is now a widely prescribed anti-depressant in many markets. It is a treatment for depression and associated anxiety.

Sold in over 90 countries, Strepsils is the world's leading antiseptic lozenge for sore throats in Pharmacy. Developed in Boots own laboratories, it is now available in four therapeutic variants in a convenient blister pack.

The development and manufacturing capability of Boots is unique in the UK. Its major customer is Boots The Chemists, to whom it supplies a large proportion of its own brand products. This dedicated development and supply arrangement gives Boots The Chemists an important competitive advantage.

Property Division "Boots Properties has had a very successful year, with profit over 15% up on last year.

Our strategy is to be a disciplined and systematic investment and development company operating only in market sectors where we have a competitive advantage."

Mike Ruddell Managing Director

Boots Properties increased profits by over 15% to £69·5m.

The UK property market remains depressed, particularly the London office sector. 90% of our portfolio, however, is invested in retail property where values show encouraging signs of stabilising, reflecting improved investor sentiment.

Income from net rents increased by 10% to £51·3m mainly due to the increase in rents on those properties falling due for review in 1991/92 as part of the five year review cycle. A development profit of £3·5m was realised from the disposal of the former Farley's manufacturing site in Plymouth following a successful planning appeal.

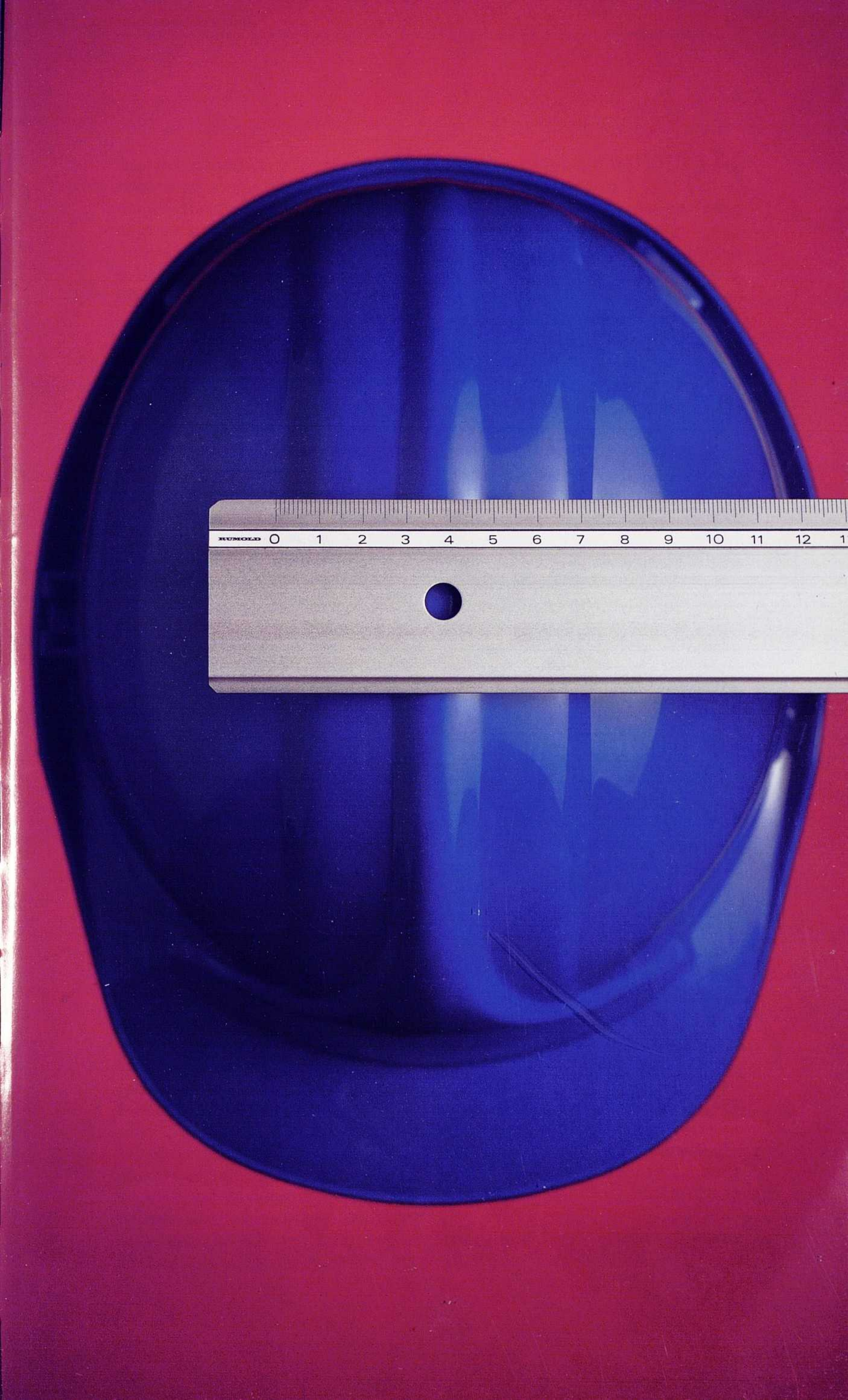
We have continued our programme for increasing the long-term value of the investment portfolio through selective purchases, disposals and retained developments, involving expenditure totalling £45m.

Our policy is to invest in properties in which Boots retail companies have an occupational interest. Purchases included the freeholds or long leaseholds of several new stores and some existing stores. In addition we acquired a number of multi-tenanted investments anchored by Boots retailers including retail parks and town centre properties.

A profit of £14·7m was realised from the sale of properties which did not meet our investment criteria, realising cash proceeds of £22m.

Our development programme has progressed cautiously in view of the state of the market with only two developments under construction during the year. Both have been completed and are substantially let.

A number of potential development schemes are being progressed in preparation for any upturn in the market, notably at Market Harborough (in partnership with Bryant Properties) and at Caerphilly where the Land Authority for Wales has selected us to carry out a town centre redevelopment scheme.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The Environment

In July 1991 a statement of the Company's environmental aims was issued and widely publicised throughout the organisation. This confirmed our position on this issue and our sensitivity to the need to consider the environmental impact of everything we do.

The policy confirms that it is the Company's aim:

- to sell products which in design, manufacture, use and subsequent disposal have proper regard to environmental factors;
- to keep down waste of materials and energy and encourage recycling;
- to cut pollution of land, air and water and
- to take environmental impacts into account in all planning and decision making throughout the Company.

The environment has been placed firmly on the agenda and is becoming as much part of established good practice as Health and Safety or Quality Assurance. The first obligation is to meet the requirements of the law of the land but in many areas the influence of employee 'green teams' can be seen in projects and initiatives that go far beyond legal necessity.

Boots The Chemists has sought to develop its merchandise ranges along environmentally friendly lines, through the increasing use of 'cradle to grave' analysis and close attention to waste management, recycling and efficient energy usage. But commitment to the environment is company wide and progress is monitored by the Board Social Responsibilities Committee.

Community Relations

The total of charitable and educational payments in 1991/92 (including those administered by Boots Charitable Trust) was £1,213,000 (1991 £1,003,000).

Boots Charitable Trust is administered independently but is wholly funded by the Company which continues a long tradition of genuine concern for the well being of the communities in which it operates. In November 1991 the Trust celebrated 21 years of community involvement during which time it has made some 10,500 charitable donations.

Social and economic changes are directly reflected in the volume and nature of the requests for help received, and the Trustees continually review and revise their policies so that resources are targeted most effectively. Priorities for 1991/92 have been charities:

- in areas of high unemployment;
- working with children, young people, and the homeless and
- concerned with healthcare.

The Company also distributes significant quantities of surplus merchandise to local, national and international charities. The cost value of merchandise distributed in 1991/92 was £660,000.

Additionally substantial donations have been made to a wide range of charities as the result of fund-raising by groups of employees. The major event of the year was the Endurance Challenge which raised £171,000 (including a top-up contribution from Boots Charitable Trust) to be shared between Help the Aged and the Company's benevolent funds.

As a member of Business In The Community, Boots sponsors 115 Local Enterprise Agencies throughout the UK.

Educational Liaison occurs at all levels to enable the Company to increase the commercial awareness of pupils and teachers, to help in the teaching of those subjects where we have particular expertise.

An extensive programme of partnership activities includes development assignments for graduate entrants, courses, conferences and careers fairs. We are also involved in curriculum based projects for school use, teacher placements and regular classroom visits, and support the Enterprise Awareness in Teacher Education Project.

Employees

Our commitment to our employees is based on the premise that a well trained, well motivated and well informed workforce will be able to participate in and contribute to the achievement of the Company's overall business goals.

We continue to involve staff in the decision-making process, through line management, a comprehensive structure of staff councils, and trade unions where they represent staff. In addition we use a large variety of communications media including The Boots Company News, which is published every six weeks and is sent to employees throughout the world along with business-specific publications of various kinds. These are supported by an annual report to staff, videos and other means.

In the UK we have a particular commitment to vocational training exemplified by nearly 6,000 registrations at levels 1, 2 and 3 of National Vocational Qualifications for Retailing in Boots The Chemists. We have also had a preliminary assessment as an 'Investor in People'.

The Company strongly believes in the fostering and development of equal opportunities programmes.

We are committed to more women holding senior positions, and were founding signatories in the UK of the Opportunity 2000 initiative. An increasing number of women are included in our Executive Development Programme. The Company also seeks to reconcile the often conflicting priorities employees feel in combining work and family responsibilities. Career-break schemes are now in place, whilst there is a growing number of employees undertaking job-sharing and term-time work contracts. Paternity leave arrangements are also being introduced.

Boots is one of 21 leading UK companies to sign the Employee's Agenda on Disability containing ten points for action to promote the recognition, recruitment and career development of people with disabilities. We are an official user of a symbol initiated by the Department of Employment in recognition of our current record in the employment of disabled people. In 1991 we introduced ethnic monitoring to enable us to understand the profile of our employees and to plan appropriate action. We have worked closely with the Commission for Racial Equality with a senior secondee from that organisation to help us in our task.

Globally, we seek to achieve policies and practices which are consistent with our approach in the UK.

Board of Directors

Sir Christopher Benson, *Chairman*
Sir Christopher, 58, became a director in April 1989. He is Chairman of MEPC, having been Managing Director from 1976 to 1988. He is also Chairman of The Housing Corporation and Deputy Chairman of Sun Alliance & London Insurance.

Sir James Blyth, *Chief Executive*
Sir James, 52, joined the company and the board in October 1987 as Chief Executive, after previous appointments as Group Managing Director of The Plessey Company and Head of Defence Sales at the Ministry of Defence. He is a non-executive director of British Aerospace, governor of London Business School and Chairman of the Prime Minister's Advisory Panel on the Citizen's Charter.

K Ackroyd, *Managing Director, Retail Division*
Keith Ackroyd, 57, joined the company in 1952 and became a director in 1979. He is a Fellow of the Royal Pharmaceutical Society of Great Britain and Chairman of the British Retail Consortium. He was appointed Managing Director of Boots The Chemists in 1983. He took up his present position in 1984.

E E Cliffe, *Managing Director, Pharmaceuticals Division*
Eric Cliffe, 59, joined the company in 1959 and became a director in 1979. He has a D.Phil degree and is a Fellow of the Royal Society of Chemistry and of the Institute of Biology. He took up his current position in 1983.

***P J Davis**
Peter Davis, 50, became a director in May 1991. He is Chairman and Chief Executive of Reed International. Before joining Reed International as Deputy Chief Executive in 1986, he spent 10 years with J Sainsbury where he became Assistant Managing Director with responsibility for all buying and marketing operations.

A H Hawksworth, *TD, DL, Personnel Director*
Alan Hawksworth, 56, joined the company in 1959 and became a director in 1984. He was previously Director of Personnel, Pharmaceuticals Division. He is a Fellow of the Institute of Personnel Management.

G M Hourston, *Managing Director, Boots The Chemists Division*
Gordon Hourston, 57, joined the company in 1958 and became Personnel Director on his board appointment in 1981. He is a Fellow of the Royal Pharmaceutical Society of Great Britain and Chairman of the Company Chemists Association. He became Deputy Managing Director of Boots The Chemists in 1984 and became Managing Director in June 1988.

***The Rt Hon Sally The Baroness Oppenheim-Barnes of Gloucester**
Sally Oppenheim-Barnes, 61, who became a director in 1982, was a Member of Parliament from 1970 to 1987 and Minister of State for Consumer Affairs from 1979 to 1982. She was Chairman of the National Consumer Council from 1987 to 1989 and is a non-executive director of Fleming High Income Investment Trust and HFC Bank.

***I M G Prosser**
Ian Prosser, 48, became a director in 1984. He is Chairman and Chief Executive of Bass and is a director of Lloyds Bank. He is a Chartered Accountant.

***Sir Peter Reynolds**, *CBE*
Sir Peter, 62, became a director in 1986. He is Deputy Chairman of Ranks Hovis McDougall and a director of Avis

Europe, Guardian Royal Exchange Assurance, Nationwide Anglia Building Society and Pioneer Concrete Holdings.

T G Richardson, *Managing Director, International and Marketing, Boots Pharmaceuticals*
Terry Richardson, 55, joined the company in 1971 and became a director in 1983. His responsibilities include marketing, UK sales and overseas businesses outside North America.

M F Ruddell, *Managing Director, Property Division*
Mike Ruddell, 48, joined the company in 1966 and became a director in 1984. In 1986 he became Large Stores Director with responsibilities including merchandise and buying within Boots The Chemists. He took up his present position in June 1988. He is a non-executive director of Community Hospitals Group plc.

G R Solway, *Managing Director, Boots Pharmaceuticals*
Gordon Solway, 55, joined the company in 1961 and became a director in 1979. He has spent the last five years in the USA overseeing business in North America. He returned to the UK to take up his present position in January 1992.

D A R Thompson, *Finance Director*
David Thompson, 49, joined the company in 1966 and became Finance Director on his board appointment in July 1990. He became Retail Division Finance Director in 1980 and Group Financial Controller in 1989. He is a Chartered Accountant.

***R P Wilson**
Robert Wilson, 48, became a director in December 1991. He has been with the RTZ Corporation for more than twenty years and became its Chief Executive in 1991.

*Non-Executive Directors

Registered office
Nottingham, NG2 3AA

Registered number
27657

Auditors
KPMG Peat Marwick

Bankers
National Westminster Bank PLC
Barclays Bank PLC

Registrars and transfer office
National Westminster Bank PLC,
Registrar's Department,
P.O. Box 82,
Caxton House,
Redcliffe Way,
Bristol BS99 7NH

Board Audit Committee
P J Davis
I M G Prosser
Sir Peter Reynolds
R P Wilson

Board Remuneration Committee
Sir Christopher Benson
P J Davis
Baroness Oppenheim-Barnes
I M G Prosser
Sir Peter Reynolds
R P Wilson

Board Social Responsibilities Committee
P J Davis
A H Hawksworth
Baroness Oppenheim-Barnes

Secretary
I A Hawtin

Directors' Report

The directors of The Boots Company PLC present their annual report to shareholders, together with the audited accounts for the year ended 31st March 1992.

Principal activities

The group's worldwide trading is conducted through four divisions. The principal activities of the Pharmaceuticals Division are the research, manufacture and marketing of pharmaceutical and consumer products, whilst the Boots The Chemists Division operates the group's retail chemists business. All other retailing activities including autoparts, DIY, opticians and children's merchandise are carried on in the Retail Division. The Property Division manages and develops the group's UK property portfolio. A review of group activities by the Chief Executive is shown on pages 6 to 9.

Group results

The group profit and loss account for 1992 shown on page 32 includes the following details:

	1992 £m	1991 £m
Turnover	**3655·7**	3565·3
Profit on ordinary activities before taxation	**374·2**	349·2

Appropriations

The directors recommend the payment of a final dividend of 8·1p per share which, if approved by shareholders, will be paid on 21st August 1992 to shareholders registered on 25th June 1992. When added to the interim dividend of 4·3p already paid, this makes a total dividend for the year of 12·4p per share (1991 11·6p per share). Payment of these dividends requires £126·4m (1991 £114·3m), leaving £120·8m (1991 £143·6m) retained in the business.

Share capital

Details of shares issued during the year are shown in note 19 on page 47.

At the annual general meeting on 25th July 1991, shareholders authorised the company to make market purchases of its own ordinary shares of 25 pence each. The authority is limited to the purchase of not more than 10% of the ordinary shares in issue at the date of the purchase; the maximum price payable is 105% of the average of the middle market quotations for the 10 business days before the purchase, with a 25 pence minimum, exclusive of any expenses payable by the company. There have been no purchases during the year. The authority expires at the end of the annual general meeting in 1992, when shareholders will be invited to renew it.

Shareholders

As at 1st June 1992 the register maintained by the company under Section 211 of the Companies Act 1985 contains a notification to the company that the Prudential Corporation group of companies holds 4.0% of the issued ordinary share capital of the company.

Fixed assets

The majority of the group's non-specialised properties were professionally valued in early 1989 and such values are incorporated in the accounts. The market value of a sample of these properties has been reassessed by internal professional staff. This has indicated that the average shortfall of approximately 15% of the 1989 valuation assessed at 31st March 1991 is unchanged as at 31st March 1992. The directors are of the opinion that this reduction in value is not permanent and do not therefore consider that an adjustment is necessary to the valuation stated in the accounts. Details of movements in fixed assets are shown on pages 41 to 43.

Directors' Report

Staff

The company continues to involve staff in the decision-making process and communicates regularly with staff during the year. Staff involvement in the company's performance is encouraged through employee bonus and share schemes and this involvement extends to the board of Boots Pensions Ltd, on which there are four employee representatives.

The company's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity regardless of sex, religion or ethnic origin. The company does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled every effort is made to provide continuity of employment in the same job or a suitable alternative.

Further information is shown on page 27.

Charitable donations

Donations for charitable and educational purposes in the UK for the year were £1,213,000 (1991 £1,003,000). There were no political payments. Further information on community relations is shown on page 26.

Directors

Details of directors are shown on pages 28 and 29.

On 25th July 1991 Mr A B Marshall retired from the board.

Mr I M G Prosser retires by rotation at the annual general meeting in accordance with Article 100 and intends to stand for re-election. Mr Prosser has no service contract with the company.

On 19th December 1991, Mr R P Wilson was appointed as a director of the company. He retires at the annual general meeting in accordance with Article 107 and offers himself for re-election. Mr Wilson has no service contract with the company.

No director had any interest, either during or at the end of the financial year, in any contract which was significant in relation to the group's business.

Details of the interests of the directors and their families in the share and loan capital of the company are shown in note 27 on page 54.

The company has maintained insurance for the directors against liabilities in relation to the company.

Company status

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the company.

Auditors

It is proposed to re-appoint KPMG Peat Marwick as auditors and a resolution to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board
3rd June 1992
I A Hawtin
Secretary

Group Profit and Loss Account

for the year ended 31st March 1992

	Notes	1992 £m	1991 £m
Turnover	2	**3655·7**	3565·3
Trading profit	3	**417·3**	414·3
Net interest:	4		
Convertible capital bonds:			
—interest payable		**(7·2)**	(9·3)
—supplemental interest		**(8·0)**	(9·2)
Other net borrowings		**(27·9)**	(46·6)
Profit on ordinary activities before taxation	2	**374·2**	349·2
Taxation on profit on ordinary activities	5	**(109·7)**	(109·0)
Profit on ordinary activities after taxation		**264·5**	240·2
Minority interests		**(1·5)**	(1·9)
		263·0	238·3
Extraordinary items	6	**(15·8)**	19·6
Profit for the financial year attributable to shareholders	7	**247·2**	257·9
Dividends	8	**(126·4)**	(114·3)
Profit retained		**120·8**	143·6
Earnings per share	9	**26·4p**	24·2p

Movements in reserves are shown in note 20 on page 48.

The comparative profit and loss account and earnings per share for the year ended 31st March 1991 have been restated to include a charge for supplemental interest on convertible capital bonds, net of tax relief, of £6·2m (see note 20).

Balance Sheets

31st March 1992

	Notes	Group 1992 £m	Group 1991 £m	Parent 1992 £m	Parent 1991 £m
Fixed assets					
Intangible assets	10	**58·1**	56·9	**10·3**	9·4
Tangible assets	11	**1568·2**	1520·4	**190·2**	172·0
Investments	12	**57·5**	49·7	**951·5**	1012·6
		1683·8	1627·0	**1152·0**	1194·0
Current assets					
Stocks	13	**519·6**	509·3	**147·5**	155·3
Debtors	14	**287·1**	261·9	**633·6**	483·6
Investments	15	**187·6**	134·4	**51·2**	1·7
Cash at bank and in hand		**10·3**	11·6	**·1**	55·1
		1004·6	917·2	**832·4**	695·7
Creditors:					
Amounts falling due within one year	16	**(986·2)**	(969·4)	**(790·0)**	(822·3)
Net current assets/(liabilities)		**18·4**	(52·2)	**42·4**	(126·6)
Total assets less current liabilities		**1702·2**	1574·8	**1194·4**	1067·4
Creditors:					
Amounts falling due after more than one year	17	**(230·6)**	(272·9)	**(358·9)**	(290·2)
Provisions for liabilities and charges	18	**(34·6)**	(31·1)	**(6·6)**	(4·6)
Net assets		**1437·0**	1270·8	**828·9**	772·6
Capital and reserves					
Called up share capital	19	**250·1**	246·2	**250·1**	246·2
Share premium account	20	**80·9**	32·6	**80·9**	32·6
Revaluation reserve	20	**528·3**	545·0	**—**	—
Profit and loss account	20	**572·6**	440·5	**497·9**	493·8
		1431·9	1264·3	**828·9**	772·6
Minority interests		**5·1**	6·5	**—**	—
		1437·0	1270·8	**828·9**	772·6

The comparative group balance sheet as at 31st March 1991 has been restated (see note 21 on page 49).

Approved by the board
3rd June 1992
Christopher Benson
Chairman

Group Cash Flow Statement

for the year ended 31st March 1992

	Notes	1992 £m	1992 £m	1991 £m	1991 £m
Net cash inflow from operating activities	22a		**472·2**		407·8
Returns on investment and servicing of finance					
Interest received		**17·4**		15·3	
Interest paid		**(50·3)**		(68·2)	
Dividends received from associated undertakings		**5·5**		5·7	
Dividends paid to shareholders		**(110·5)**		(105·0)	
Dividends paid to minority interests		**(·6)**		(·6)	
Net cash outflow from returns on investment and servicing of finance			**(138·5)**		(152·8)
Taxation					
UK corporation tax paid		**(72·9)**		(93·8)	
Overseas tax paid		**(20·5)**		(15·1)	
Tax paid			**(93·4)**		(108·9)
Investing activities					
Purchase of fixed assets		**(175·9)**		(182·4)	
Purchase of businesses	22e	**(2·7)**		(10·2)	
Investment and loans to associated undertakings		**(31·8)**		(5·4)	
Disposal of fixed assets		**30·3**		26·6	
Disposal of businesses	22e	**·5**		78·3	
Increase in short term investments		**(20·6)**		(31·4)	
Net cash outflow from investing activities			**(200·2)**		(124·5)
Net cash inflow before financing			**40·1**		21·6
Financing					
Issue of ordinary share capital		**4·5**		6·3	
Capital element of finance lease rental payments		**(4·2)**		(6·2)	
Sale and leaseback proceeds		**—**		8·5	
Repayment of variable rate notes		**(8·3)**		(2·7)	
Increase in other borrowings		**3·0**		42·5	
Net cash (outflow)/inflow from financing			**(5·0)**		48·4
Increase in cash and cash equivalents			**35·1**		70·0

Notes Relating to the Accounts

1 ACCOUNTING POLICIES

The following accounting policies have been used in dealing with items which are considered material in relation to the group accounts.

Basis of accounting

The accounts have been prepared in accordance with applicable accounting standards and under alternative accounting rules set out in the 4th schedule to the Companies Act, 1985, being prepared under the historical cost convention adjusted by the revaluations of certain properties at open market value. A separate profit and loss account for the parent company has not been presented as permitted by section 230 of the Companies Act, 1985.

Consolidation

The accounts combine the results of the company and its subsidiary and associated undertakings for the period of, and to the extent of, group ownership, after eliminating intra-group transactions. The excess of cost of investments in subsidiaries over the fair value of net tangible assets acquired is written off to reserves.

Associates are those undertakings, not recognised as subsidiaries, in which the group has a participating interest of between twenty per cent and fifty per cent and over whose policies the group is able to exercise a significant degree of influence. The proportion of results attributable to the group is included in the group profit and loss account. In the group balance sheet, investments in associates are shown at the group's share of net assets excluding goodwill.

Foreign currencies

The results and cash flows of overseas companies are translated into sterling on an average exchange rate basis, weighted by the actual results of each month. Assets and liabilities are translated into sterling at the rates of exchange ruling at the date of the group balance sheet. Translation differences are taken to reserves. Differences on foreign currency loans are taken to reserves and matched against the differences on net investments. Other exchange gains or losses are taken to trading profit where they relate to items of a trading nature. Overseas investments are stated at the rate of exchange in force at the date each investment was made.

Fixed assets and depreciation

Profits and losses arising from the disposal of properties which have previously been revalued are calculated by reference to their original cost.

No depreciation is provided on freehold land, shop freeholds and long leaseholds with more than fifty years to run because of their high residual values, nor on assets in course of construction. Other tangible fixed assets are written off by equal instalments over their expected normal lives. The maximum life assumed for freehold buildings, other than shops, is forty years, and the lives assumed for fixtures and plant vary between three and twenty-five years.

Intangible fixed assets acquired are amortised over estimated useful lives of up to a maximum of 20 years. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Research and development

Expenditure, other than on buildings and plant, is charged against profits in the year in which it is incurred.

Notes Relating to the Accounts

1 ACCOUNTING POLICIES — continued

Pension funding

The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three-year intervals and include a review of contributions.

The cost of providing pensions is spread over the employees' working lives with the group. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes.

Leases

The rental costs of properties and other assets acquired under operating leases are charged directly to the profit and loss account.

The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals payable is charged to the profit and loss account.

Deferred taxation

A deferred taxation provision is made only where the effects of timing differences between profits as stated in the accounts and as computed for tax purposes are likely to reverse in the foreseeable future. Advance corporation tax is carried forward to the extent that it is expected to be recovered.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets since any liability will be deferred indefinitely under capital gains provisions. Provision for taxation on the revaluation surplus is made to the extent that the gain is not expected to be sheltered by rollover relief under The Capital Gains Tax Act 1979.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries and associates as the major part of these profits will not be remitted.

Notes Relating to the Accounts

2 SEGMENTAL INFORMATION

a Analysis of turnover and profit by divisional segment is as follows:

	1992 Turnover £m	1992 Profit £m	1991 Turnover £m	1991 Profit £m
Pharmaceuticals Division	699·2	120·8	628·8	115·1
Boots The Chemists Division	2471·8	246·2	2360·6	228·8
Retail Division				
Halfords	306·9	(10·5)	290·1	2·8
A G Stanley	110·9	6·2	114·8	9·5
Boots Opticians	84·3	5·5	73·8	4·0
Childrens World	63·5	(6·7)	54·6	(4·7)
Overseas	59·0	—	59·8	·3
Do It All	—	·2	—	8·7
Payless	—	—	88·1	6·7
	624·6	(5·3)	681·2	27·3
Property Division				
Development	5·0	3·5	·7	·2
Net rents	—	51·3	—	46·5
Profit from property sales	—	14·7	—	13·4
	5·0	69·5	·7	60·1
Net interest	—	(43·1)	—	(65·1)
Corporate costs	—	(13·9)	—	(18·1)
Inter-divisional	(144·9)	—	(139·5)	—
	3655·7	374·2	3531·8	348·1
Discontinued operations	—	—	33·5	1·1
	3655·7	374·2	3565·3	349·2

Turnover comprises sales to external customers excluding sales taxes. Inter-divisional turnover elimination relates to the Pharmaceuticals Division's sales to Boots The Chemists Division. The joint venture, Do It All Limited, is accounted for as an associated undertaking, following the merger of Payless with W H Smith Do It All in August 1990. Do It All profit represents 50% of results attributable to its ordinary shareholders and the benefit of preference dividends.

b Analysis of net operating assets by divisional segment is as follows:

	1992 £m	1991 £m
Pharmaceuticals Division	386·6	349·1
Boots The Chemists Division	431·5	422·5
Retail Division	211·8	220·7
Property Division	938·6	903·0
Net operating assets	1968·5	1895·3
Unallocated liabilities	(531·5)	(624·5)
	1437·0	1270·8

Net operating assets includes intangible and tangible fixed assets, fixed asset investments, stocks, third party debtors and creditors and inter-segment trading balances. Unallocated liabilities include all current taxation balances, dividend creditors, net borrowings including the convertible capital bonds and provisions for liabilities and charges.

Notes Relating to the Accounts

2 SEGMENTAL INFORMATION — continued

c Analysis by geographical segment, with turnover and related profits shown in the segment from which the sale was made, is as follows:

	1992 Turnover £m	1992 Profit £m	1991 Turnover £m	1991 Profit £m
UK	**3259·6**	**335·2**	3165·7	340·0
Rest of Europe	**198·2**	**13·3**	197·1	19·7
US	**144·7**	**68·2**	114·7	57·2
Rest of World	**93·3**	**14·5**	90·0	14·4
Inter-segment	**(40·1)**	—	(35·7)	—
Net interest and corporate costs	—	**(57·0)**	—	(83·2)
	3655·7	**374·2**	3531·8	348·1
Discontinued operations	—	—	33·5	1·1
	3655·7	**374·2**	3565·3	349·2

d Analysis of net operating assets by geographical segment is as follows:

	1992 £m	1991 £m
UK	**1818·8**	1749·1
Rest of Europe	**52·9**	63·4
US	**60·8**	46·4
Rest of World	**36·0**	36·4
Net operating assets	**1968·5**	1895·3
Unallocated liabilities	**(531·5)**	(624·5)
	1437·0	1270·8

e Turnover by geographical destination is as follows:

	1992 £m	1991 £m
UK	**3157·5**	3083·5
Rest of Europe	**217·3**	213·9
US	**163·4**	124·3
Rest of World	**117·5**	110·1
	3655·7	3531·8
Discontinued operations	—	33·5
	3655·7	3565·3

Notes Relating to the Accounts

3 TRADING PROFIT

	1992 £m	1991 £m
Turnover	**3655·7**	3565·3
Cost of sales	**(1991·1)**	(1955·0)
Gross profit	**1664·6**	1610·3
Selling, distribution and store costs	**(1053·6)**	(1029·5)
Research and development costs	**(58·9)**	(53·7)
Administration costs	**(175·0)**	(153·3)
Profit from property sales	**14·7**	13·4
Licence income	**26·0**	18·6
Income from interests in associated undertakings	**(·5)**	8·5
Trading profit	**417·3**	414·3

The 1991 analysis has been reclassified to align with the basis adopted in 1992.

Trading profit is after charging:		
Operating lease rentals:		
Property rents	**115·1**	106·2
Computer and plant hire	**9·3**	10·4
Depreciation and amortisation	**89·2**	84·4
Remuneration of auditors	**1·0**	·9

4 NET INTEREST

	1992 £m	1991 £m
Interest receivable and similar income:		
Listed investments	**·1**	·3
Short term deposits	**18·3**	13·6
	18·4	13·9
Interest payable and similar charges:		
Repayable within five years:		
Bank and other loans	**(47·2)**	(51·5)
Convertible capital bonds	**(15·2)**	(18·5)
Interest capitalised	**1·7**	·1
Finance lease charges	**(·8)**	(·7)
Loans repayable after five years	**—**	(8·4)
	(61·5)	(79·0)
	(43·1)	(65·1)

Notes Relating to the Accounts

5 TAXATION

	1992 £m	1991 £m
The charge on the profit for the year consists of:		
UK corporation tax at 33% (1991 34%)	**93·1**	90·3
Deferred taxation	**2·4**	(·5)
Relief for overseas taxation	**(13·0)**	(5·5)
Share of taxation of associated undertakings	**·7**	3·3
Total UK taxation	**83·2**	87·6
Overseas taxation	**25·2**	19·3
Overseas deferred taxation	**1·3**	2·1
	109·7	109·0

The taxation charge for the year includes a credit in respect of prior year taxation of £3·1m (1991 charge of £1·2m).

A deferred taxation credit of £2·6m (1991 £3·0m) has been included in respect of the provision for supplemental interest on the convertible capital bonds. Although this treatment is contrary to SSAP15, in the directors' opinion it is necessary to show a true and fair view.

6 EXTRAORDINARY ITEMS

	1992 £m	1991 £m
Provision for costs relating to businesses sold in prior years	**(15·8)**	—
Profit on disposal of subsidiary undertaking	—	19·6
	(15·8)	19·6

There is considerable uncertainty regarding the extent of possible environmental liabilities in respect of former involvement in an agro-chemical joint venture in the US, sold in 1981. The directors consider it prudent to set up a provision of £10m for such known and potential liabilities.

A provision of £5·8m has been made for anticipated costs in the UK relating to businesses sold by the Ward White Group prior to its acquisition in 1989 which arise from leases where the assignees have defaulted.

No taxation relief has been recognised.

7 PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS

Of the profit attributable to shareholders £130·5m (1991 £4·5m) is dealt with in the accounts of the parent company.

8 DIVIDENDS

			1992 £m	1991 £m
Interim paid of	**4·3p** per share	(1991 4·1p)	**42·6**	40·4
Final proposed of	**8·1p** per share	(1991 7·5p)	**83·8**	73·9
	12·4p	11·6p	**126·4**	114·3

9 EARNINGS PER SHARE

Earnings per share calculations are based on 996·2m (1991 982·7m) average ordinary shares in issue, weighted on a time basis, and profit before extraordinary items of £263·0m (1991 £238·3m).

Average ordinary shares in issue have been adjusted for shares issued and to be issued following conversion and exchange of convertible capital bonds with effect from the preceding interest payment date. Details of conversion and exchange are shown in note 21 on page 49.

The fully diluted earnings per share would not be materially different.

Notes Relating to the Accounts

10 INTANGIBLE FIXED ASSETS

Patents, trade marks and other product rights acquired.

	Group £m	Parent £m
Cost		
At 31st March 1991	61·9	12·7
Additions	2·7	1·7
Currency adjustments	·3	—
At 31st March 1992	64·9	14·4
Amortisation		
At 31st March 1991	5·0	3·3
Amortisation for year	1·8	·8
At 31st March 1992	6·8	4·1
Net book value at 31st March 1992	58·1	10·3

11 TANGIBLE FIXED ASSETS

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Group					
Cost or valuation					
At 31st March 1991	1003·7	220·5	715·4	25·8	1965·4
Currency adjustments	(·2)	(1·6)	(·1)	—	(1·9)
Additions	47·1	29·2	65·9	30·5	172·7
Disposals	(27·9)	(8·8)	(23·4)	—	(60·1)
Reclassifications	13·5	3·5	3·0	(20·0)	—
At 31st March 1992	1036·2	242·8	760·8	36·3	2076·1
Depreciation					
At 31st March 1991	36·1	97·5	311·4	—	445·0
Currency adjustments	(·1)	(·9)	(·6)	—	(1·6)
Depreciation for year	4·9	20·6	61·9	—	87·4
Disposals	(·5)	(5·3)	(17·1)	—	(22·9)
At 31st March 1992	40·4	111·9	355·6	—	507·9
Net book value at 31st March 1992	995·8	130·9	405·2	36·3	1568·2

Net book value includes assets held under finance leases as follows:

	Cost £m	Depreciation £m	Net book value £m
At 31st March 1991	10·9	(2·6)	8·3
Additions	2·1	—	2·1
Depreciation for year	—	(1·6)	(1·6)
Disposals	(2·1)	·6	(1·5)
At 31st March 1992	10·9	(3·6)	7·3

Land and buildings include capitalised interest of £·8m (1991 £·1m)

Notes Relating to the Accounts

11 TANGIBLE FIXED ASSETS — continued

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Parent					
Cost or valuation					
At 31st March 1991	46·6	142·5	121·6	7·0	317·7
Additions	·8	19·3	13·1	14·7	47·9
Disposals	(·1)	(5·7)	(4·8)	—	(10·6)
Reclassifications and transfers	·1	1·1	·5	(2·7)	(1·0)
At 31st March 1992	47·4	157·2	130·4	19·0	354·0
Depreciation					
At 31st March 1991	15·2	67·1	63·4	—	145·7
Depreciation for year	1·1	12·3	12·4	—	25·8
Disposals	(·1)	(4·0)	(3·5)	—	(7·6)
Transfers	—	—	(·1)	—	(·1)
At 31st March 1992	16·2	75·4	72·2	—	163·8
Net book value at 31st March 1992	31·2	81·8	58·2	19·0	190·2

Net book value includes assets held under finance leases as follows:	Cost £m	Depreciation £m	Net book value £m
At 31st March 1991	1·7	(·5)	1·2
Depreciation for year	—	(·1)	(·1)
Disposals	(1·7)	·6	(1·1)
At 31st March 1992	—	—	—

Net book value of land and buildings comprises:	Group 1992 £m	Group 1991 £m	Parent 1992 £m	Parent 1991 £m
Freehold	**801·8**	780·2	**31·2**	31·4
Long leasehold (more than 50 years unexpired)	**162·9**	156·9	—	—
Short leasehold	**31·1**	30·5	—	—
	995·8	967·6	**31·2**	31·4
Analysis of cost or valuation:				
Cost	**1309·9**	1176·1	**347·6**	311·3
Independent valuation 1989	**757·5**	780·6	—	—
1965	**·8**	·8	—	—
1959	**·1**	·1	—	—
1958	**7·8**	7·8	**6·4**	6·4
	2076·1	1965·4	**354·0**	317·7
Net book value of tangible fixed assets under the historical cost convention	**1038·3**	972·3	**189·6**	171·3

The current valuation of properties is referred to in the Directors' Report on page 30.

Notes Relating to the Accounts

12 FIXED ASSETS—INVESTMENTS

	Associated undertakings £m
Group	
Share of net tangible assets at 31st March 1991	49·7
Additions	16·6
Loss for the year	(1·2)
Dividends paid	(5·0)
Capital repayment	(2·6)
Share of net tangible assets at 31st March 1992	57·5

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Shares in associated undertakings £m	Total £m
Parent				
Cost				
At 31st March 1991	1084·7	225·0	99·9	1409·6
Additions	·1	137·2	—	137·3
Repayments	—	(150·9)	(2·6)	(153·5)
Currency adjustments	—	1·1	—	1·1
At 31st March 1992	1084·8	212·4	97·3	1394·5
Provision				
At 31st March 1991	391·0	6·0	—	397·0
Movement	48·9	(2·9)	—	46·0
At 31st March 1992	439·9	3·1	—	443·0
Net book value at 31st March 1992	644·9	209·3	97·3	951·5

The list of principal companies shown on pages 56 and 57 forms part of this note.

The parent has guaranteed overdrafts of an associate up to a maximum limit of £30m (1991 £30m).

Notes Relating to the Accounts

13 STOCKS

	Group 1992 £m	Group 1991 £m	Parent 1992 £m	Parent 1991 £m
Manufacturing:				
Raw materials	**28·7**	33·6	**14·7**	18·5
Work in progress	**20·3**	18·2	**14·2**	11·9
Finished goods	**43·9**	41·1	**14·4**	13·0
	92·9	92·9	**43·3**	43·4
Retailing	**408·8**	401·5	**104·2**	111·9
Property development	**17·9**	14·9	—	—
	519·6	509·3	**147·5**	155·3

Property development stock includes capitalised interest net of taxation of £1·1m (1991 £·4m).

14 DEBTORS

	Group 1992 £m	Group 1991 £m	Parent 1992 £m	Parent 1991 £m
Falling due within one year:				
Trade debtors	**165·2**	152·5	**30·0**	33·8
Owed by subsidiary undertakings	—	—	**235·3**	349·3
Owed by associated undertakings	**19·2**	1·4	**15·4**	1·4
Other debtors	**21·4**	31·7	**10·7**	13·5
Prepayments and accrued income	**47·1**	40·2	**9·7**	9·7
Corporation tax	**1·6**	6·2	—	—
	254·5	232·0	**301·1**	407·7
Falling due after more than one year:				
Owed by subsidiary undertakings	—	—	**302·3**	48·1
Advance corporation tax	**27·9**	24·6	**27·9**	24·6
Other debtors	**4·7**	5·3	**2·3**	3·2
	287·1	261·9	**633·6**	483·6

15 CURRENT ASSETS—INVESTMENTS

	Group 1992 £m	Group 1991 £m	Parent 1992 £m	Parent 1991 £m
Listed investments	**·6**	·6	**·5**	—
Short term deposits	**182·0**	130·7	**47·0**	—
Certificates of tax deposit	**5·0**	3·1	**3·7**	1·7
	187·6	134·4	**51·2**	1·7
Market value of investments listed on The London Stock Exchange	**·6**	·6	**·5**	—

In common with a number of international businesses, our US subsidiary operates a manufacturing plant in Puerto Rico. Cash generated from this operation is invested locally in US dollar denominated instruments. There is no restriction on remittance of funds from Puerto Rico although there is currently no intention to do so. At 31st March 1992, the investments amounted to £90·5m (1991 £65·3m).

Notes Relating to the Accounts

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 1992 £m	Group 1991 £m	Parent 1992 £m	Parent 1991 £m
Bank loans and overdrafts	**108·3**	47·2	**170·7**	22·2
Variable rate notes	**30·6**	38·9	**28·5**	34·5
Bills of exchange—bank acceptances	**122·7**	78·5	**122·7**	78·5
—trade	**5·9**	7·5	**·1**	·2
Commercial paper	**72·7**	183·9	**72·7**	183·9
Trade creditors	**196·7**	246·3	**142·5**	197·9
Due to subsidiary undertakings	**—**	—	**31·3**	112·7
Due to associated undertakings	**—**	·4	**—**	—
Corporation tax	**61·7**	53·3	**·3**	5·9
Advance corporation tax	**41·4**	37·5	**41·4**	37·5
Taxation and social security (including value added and other sales taxes)	**73·4**	33·7	**27·4**	18·7
Obligations under finance leases	**3·2**	3·1	**—**	·3
Other creditors	**96·8**	86·7	**44·4**	38·1
Accruals	**89·0**	78·5	**24·2**	18·0
Proposed dividend	**83·8**	73·9	**83·8**	73·9
	986·2	969·4	**790·0**	822·3

Overdrafts of certain subsidiaries amounting to £2·3m at 31st March 1992 (1991 £4·5m) were secured on the assets of those subsidiaries.
Variable rate notes are repayable at the option of the holders.

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 1992 £m	Group 1991 £m	Parent 1992 £m	Parent 1991 £m
Unsecured loans:				
Due within one to two years:				
Foreign currency bank loans	**1·7**	2·0	**—**	—
Obligations under finance leases	**·8**	3·1	**—**	—
7¾% stock 1988/93	**5·7**	—	**5·7**	—
Due within two to five years:				
7¾% stock 1988/93	**—**	5·7	**—**	5·7
US $175m 9% bonds 1997	**101·2**	—	**101·2**	—
Convertible capital bonds (see note 21)	**113·3**	155·0	**—**	—
Due after five years:				
US $175m 9% bonds 1997	**—**	100·6	**—**	100·6
Due to subsidiary undertakings	**—**	—	**250·5**	182·2
Other creditors	**2·9**	2·8	**1·5**	1·7
Accruals	**5·0**	3·7	**—**	—
	230·6	272·9	**358·9**	290·2

The 7¾% stock is repayable on or before 30th September 1993 at the option of the company. The 9% bonds are redeemable at their principal amount on 3rd January 1997.

Notes Relating to the Accounts

18 PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred taxation £m	Acquisition provisions £m	Supplemental interest £m	Other provisions £m	Total £m
At 31st March 1991					
As previously stated	8·8	15·1	—	—	23·9
Prior year adjustment (see note 20)	(3·5)	—	10·7	—	7·2
As restated	5·3	15·1	10·7	—	31·1
Extraordinary items	—	—	—	15·8	15·8
Transfer from creditors	—	·3	—	—	·3
Utilised	—	(10·2)	—	(·1)	(10·3)
Profit and loss account	3·7	—	8·0	—	11·7
Currency adjustments	(·2)	—	—	—	(·2)
Stock-interest capitalised	(·3)	—	—	—	(·3)
Revaluation reserve	(1·0)	—	—	—	(1·0)
Transfer to reserves (see note 21)	6·2	—	(18·7)	—	(12·5)
At 31st March 1992	13·7	5·2	—	15·7	34·6

Parent	Deferred taxation £m
At 31st March 1991	4·6
Profit and loss account	2·0
At 31st March 1992	6·6

	Group 1992 £m	Group 1991 £m	Parent 1992 £m	Parent 1991 £m
Analysis of deferred taxation provision:				
Capital allowances	**16·1**	18·1	**4·0**	5·3
Capital gains taxation	**1·9**	2·9	—	—
Other items:				
UK	**1·1**	(10·1)	**2·6**	(·7)
Overseas	**(5·4)**	(5·6)	—	—
	13·7	5·3	**6·6**	4·6
Unprovided deferred taxation:				
Capital allowances	**64·7**	59·6	**28·4**	27·2
Capital gains rolled over (net of capital losses)	**5·6**	14·6	—	—
Other items	**(1·7)**	(2·6)	—	—
	68·6	71·6	**28·4**	27·2

It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation on gains on properties sold in the normal course of business is expected to be deferred indefinitely.
The unprovided deferred taxation at 31st March 1991 has been restated to include the offset of capital losses.

Notes Relating to the Accounts

19 SHARE CAPITAL

	1992 £m	1991 £m
Ordinary shares of 25p each:		
Authorised	**300·0**	300·0
Allotted, called up and fully paid	**250·1**	246·2

Details of ordinary shares allotted during the year are as follows:

	Bond conversions	Scrip dividends	Profit sharing scheme	Option schemes	Total
Number of shares allotted (million)	12·4	1·5	·7	1·0	15·6
	£m	£m	£m	£m	£m
Nominal value	3·1	·4	·2	·2	3·9
Share premium	38·6	5·6	2·5	2·0	48·7
Consideration	41·7	6·0	2·7	2·2	52·6

During the year approximately 25% of shareholders owning 5% of shares elected to take all or part of their dividends in shares.

Under a savings-related scheme options may be granted enabling employees with over three years' service to subscribe for ordinary shares at approximately 80% of market price. At 31st March 1992, options exercisable from 1992 to 1999 at between 167p and 337p per share were outstanding in respect of 7,244,611 shares.

Under an executive share option scheme certain senior executives are granted options to subscribe for ordinary shares. At 31st March 1992, such options were outstanding as follows:

40,000 shares at 195p exercisable to August 1995
142,500 shares at 307p exercisable to June 1997
2,035,000 shares at 257p exercisable from December 1992 to December 1999
882,500 shares at 286p exercisable from July 1993 to July 2000
487,000 shares at 339p exercisable from December 1993 to December 2000
2,012,500 shares at 399p exercisable from July 1994 to July 2001
103,500 shares at 420p exercisable from December 1994 to December 2001

On any date, the aggregate nominal amount of new shares over which options may be granted, when added to the nominal amount of new shares issued and remaining issuable in respect of options granted in the previous ten years under all of the company's employee share schemes, may not exceed 10 per cent of the nominal amount of shares in issue immediately before that date.

An analysis of shareholders as at 31st March 1992 is as follows:

Shareholdings range	Number	%	Total holding	%
1 — 500	32,049	26·2	7,519,484	·8
501 — 1,000	26,261	21·5	19,948,891	2·0
1,001 — 10,000	59,847	48·9	161,472,159	16·1
10,001 — 100,000	3,473	2·9	83,519,631	8·3
100,001 — 1,000,000	535	·4	161,712,074	16·2
Over 1,000,000	137	·1	566,176,444	56·6
	122,302	100·0	1,000,348,683	100·0

Notes Relating to the Accounts

20 RESERVES

Group

	Share premium account £m	Revaluation reserve £m	Profit and loss account £m	Share of associated undertakings £m	Total £m
At 31st March 1991					
As previously stated	32·6	545·0	448·6	(·9)	1025·3
Prior year adjustment (see below)	—	—	(7·2)	—	(7·2)
As restated	32·6	545·0	441·4	(·9)	1018·1
Profit retained	—	—	127·0	(6·2)	120·8
Goodwill	—	—	(2·7)	—	(2·7)
Revaluation surplus realised on disposals	—	(17·7)	—	—	(17·7)
Currency adjustments	—	—	1·5	—	1·5
Issue of shares	48·7	—	—	—	48·7
Share issue expenses	(·4)	—	—	—	(·4)
Deferred taxation	—	1·0	—	—	1·0
Supplemental interest released on conversion of bonds (net)	—	—	12·5	—	12·5
At 31st March 1992	80·9	528·3	579·7	(7·1)	1181·8

The cumulative amount of goodwill resulting from acquisitions up to and including the year ended 31st March 1992, net of goodwill attributable to subsidiaries or businesses disposed of prior to this date, amounted to £1,304·5m (1991 £1,301·8m).

Included within currency adjustments is £1·0m (1991 £7·4m) of net exchange gains on foreign currency loans.

The prior year adjustment arises from the change in accounting for supplemental interest in respect of the convertible capital bonds necessitated by the issue of a pronouncement on this matter by the Urgent Issues Task Force of the Accounting Standards Board during the year. Cumulative supplemental interest to 31st March 1991 amounted to £10·7m gross less deferred taxation of £3·5m.

Parent

	Share premium account £m	Profit and loss account £m	Total £m
At 31st March 1991	32·6	493·8	526·4
Profit retained	—	4·1	4·1
Issue of shares	48·7	—	48·7
Share issue expenses	(·4)	—	(·4)
At 31st March 1992	80·9	497·9	578·8

Notes Relating to the Accounts

21 CONVERTIBLE CAPITAL BONDS

In January 1990, Boots Finance Ltd issued £155m of 6% convertible capital bonds, guaranteed on a subordinated basis by the parent company. At the election of the bondholders the bonds are convertible at any time into redeemable preference shares of Boots Finance Ltd, which in turn are immediately exchangeable for ordinary shares of The Boots Company PLC at 335 pence per share. This price represents a 16% premium over the market price at the time of issue.

During the year ended 31st March 1992, bondholders converted and exchanged £41·7m of the bonds, leaving £113·3m in issue at the year end. In line with evolving practice, the remaining bonds are now included in the balance sheet within creditors and comparative figures have been restated. As described in note 20, the 1991 accounts have also been restated to provide for supplemental interest on the bonds. Such supplemental interest is only payable in very limited circumstances but would increase the yield on the bonds from 6% to 11.69%.

On 15th May 1992, the necessary conditions having been met, Boots Finance Ltd gave notice requiring conversion of all remaining bonds and redemption of the resulting preference shares at their paid-up value on 16th June 1992.

Rather than accept redemption of preference shares, bondholders may elect to exercise their right to exchange the preference shares for ordinary shares of The Boots Company PLC at 335 pence per share. The directors are of the opinion that all bondholders will elect to exchange into ordinary shares.

Bondholders who do elect to exchange will not be entitled to any interest for the period since 29th January 1992, the last interest payment date. Consequently, the interest on the bonds now being exchanged for ordinary shares for the period to 31st March 1992, being £1·2m basic and £1·3m supplemental, has not been accrued. In addition, the cumulative provision for supplemental interest, net of tax, will not be required and this has been credited to reserves.

Conversion and exchange of all the bonds remaining at 31st March 1992 will result in the issue of an additional 33·8m shares on which a final dividend of £2·7m will be payable. Provision for this additional dividend has been included in the accounts.

22 NOTES TO THE GROUP CASH FLOW STATEMENT

a Reconciliation of trading profit to net cash inflow from operating activities	1992 £m	1991 £m
Trading profit	**417·3**	414·3
Loss/(income) from interests in associated undertakings	**·5**	(8·5)
Depreciation and amortisation	**89·2**	84·4
Surplus on disposal of fixed assets	**(9·1)**	(5·3)
Increase in stocks	**(11·3)**	(18·1)
Increase in debtors	**(13·9)**	(17·5)
Increase/(decrease) in creditors	**9·8**	(21·7)
Provisions utilised	**(10·3)**	(19·8)
Net cash inflow from operating activities	**472·2**	407·8

b Analysis of changes in cash and cash equivalents during the year	1992 £m	1991 £m
At 31st March 1991	**(163·7)**	(239·1)
Net cash inflow	**35·1**	70·0
Change in status of associates to subsidiaries	**—**	(1·6)
Currency adjustments	**3·0**	7·0
At 31st March 1992	**(125·6)**	(163·7)

Notes Relating to the Accounts

22 NOTES TO THE GROUP CASH FLOW STATEMENT — continued

c Analysis of changes in financing during the year

	1992 Share capital and premium £m	1992 Borrowings and finance leases £m	1991 Share capital and premium £m	1991 Borrowings and finance leases £m
At 31st March 1991	**278·8**	**371·5**	267·0	334·4
Cash inflows/(outflows) from financing	**4·5**	**(9·5)**	6·3	42·1
Scrip dividends	**6·0**	—	5·5	—
Conversion of capital bonds	**41·7**	**(41·7)**	—	—
Finance leases capitalised	—	**2·1**	—	—
Change in status of associates to subsidiaries	—	—	—	1·9
Currency adjustments	—	**(·5)**	—	(6·9)
At 31st March 1992	**331·0**	**321·9**	278·8	371·5

d Analysis of cash, cash equivalents, investments and borrowings

	1992 Cash and cash equivalents £m	1992 Investments, borrowings and finance leases £m	1991 Cash and cash equivalents £m	1991 Investments, borrowings and finance leases £m
Cash at bank and in hand	**10·3**	—	11·6	—
Listed investments	—	**·6**	—	·6
Short term deposits	**102·4**	**79·6**	71·2	59·5
Certificates of tax deposit	—	**5·0**	—	3·1
	112·7	**85·2**	82·8	63·2
Bank loans and overdrafts	**(107·6)**	**(·7)**	(45·9)	(1·3)
Variable rate notes	—	**(30·6)**	—	(38·9)
Bills of exchange—bank acceptances	**(122·7)**	—	(78·5)	—
Commercial paper	**(8·0)**	**(64·7)**	(122·1)	(61·8)
Obligations under finance leases	—	**(4·0)**	—	(6·2)
Unsecured loans due after more than one year	—	**(221·9)**	—	(263·3)
	(238·3)	**(321·9)**	(246·5)	(371·5)
Net debt	**(125·6)**	**(236·7)**	(163·7)	(308·3)

Cash equivalents are highly liquid deposits which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of advance.

Investments and borrowings have original maturities of more than three months.

Net debt has decreased by £109·7m, comprising increase in cash and cash equivalents of £35·1m, conversion of capital bonds of £41·7m, movement in funds with maturity longer than three months of £30·1m and currency adjustments of £2·8m.

Notes Relating to the Accounts

22 NOTES TO THE GROUP CASH FLOW STATEMENT — continued

e Purchase and disposal of businesses

	Purchase 1992 £m	Purchase 1991 £m	Disposal 1992 £m	Disposal 1991 £m
Tangible fixed assets	—	(1·4)	—	34·4
Goodwill	**(2·7)**	(5·8)	—	—
Stocks	—	(1·5)	—	46·4
Debtors	—	(·1)	—	4·8
Bank overdraft	—	—	—	(24·9)
Creditors	—	—	—	(30·6)
Acquisition provisions	—	1·0	—	—
Taxation	—	—	—	(6·2)
Deferred taxation	—	(2·4)	—	·5
	(2·7)	(10·2)	—	24·4
Extraordinary profit on disposal			—	19·6
Investment in associated undertakings			—	44·0
Net cash (outflow)/inflow:				
Cash consideration for purchases	**(2·7)**	(10·2)	—	—
Bank overdraft of subsidiary disposed	—	—	—	24·9
Deferred receipts from sale of businesses	—	—	**·5**	53·4
	(2·7)	(10·2)	**·5**	78·3

23 PENSIONS

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes, and are fully funded.

The principal UK pension scheme is Boots Pension Scheme, the cost for which is determined by Bacon & Woodrow, consulting actuaries. There was no pension cost for Boots Pension Scheme in the year (1991 nil), reflecting the results of the 1st April 1989 valuation. The zero charge arises as a result of amortisation of surplus (after benefit improvements) being recognised over 12 years, the expected average remaining service life of members. Benefit improvements to the scheme have anticipated the requirements of the Social Security Act 1990 regarding pension increases and the expected requirements for the equal pension provision for men and women following the judgement of the European Court of Justice in the case of Barber *v* GRE Assurance Group. Allowance for these improvements was made in calculating the zero pension cost.

The projected unit method was used both in assessing pension costs for accounting purposes and for funding the scheme. The assumed rate of investment return was 2% per annum above the assumed rate of pay increases, excluding promotional increases, 4% per annum above the assumed rate of pension increases and 4½% per annum above the assumed rate of dividend increases. Members retiring are assumed to be replaced by new entrants so that the average age of the membership remains constant.

The market value of the scheme's assets was £858 million at 1st April 1989. The valuation showed that the actuarial value of the assets at 1st April 1989 represented 145% of the actuarial value of the accrued benefits before improvements. The accrued benefits include all benefits for pensioners and other former members as well as benefits based on service to the valuation date for active members, allowing for future pay increases. The excess of assets over liabilities has arisen because investment performance has been better than assumed. The employer's contributions are equal to the pension costs recognised in the group accounts.

Actuarial valuations as at 1st April 1992 are in the course of preparation.

Notes Relating to the Accounts

24 COMMITMENTS

a Future capital expenditure approved by the directors and not provided for in these accounts is as follows:

	Group 1992 £m	Group 1991 £m	Parent 1992 £m	Parent 1991 £m
Contracts placed	**87·1**	58·9	**59·5**	26·5
Contracts not placed	**77·2**	64·8	**34·1**	13·6
	164·3	123·7	**93·6**	40·1

b Annual commitments under operating leases at 31st March 1992 are as follows:

	Group Land and buildings £m	Group Other £m	Parent Land and buildings £m	Parent Other £m
Expiring:				
Within one year	3·4	2·7	—	1·1
Over one year and less than five years	11·9	5·6	7·6	—
Over five years	102·5	—	2·7	—
	117·8	8·3	10·3	1·1

25 STAFF NUMBERS AND COSTS

The average number of persons employed by the group during the year was as follows:

	1992	1991
Pharmaceuticals Division	**11,451**	11,151
Boots The Chemists Division	**52,040**	53,853
Retail Division	**16,424**	17,839
Property Division	**43**	27
Central	**889**	875
Total employees	**80,847**	83,745

Total number of persons employed by the group at 31st March 1992 was 79,036 (1991 81,590).

The aggregate payroll cost was as follows:	£m	£m
Wages and salaries	**664·7**	609·9
Social security costs	**58·1**	52·7
Other pension costs	**6·9**	5·5
	729·7	668·1

All the employees of our South African company are paid above the Supplemented Living level. Further information is available from the Secretary.

Notes Relating to the Accounts

26 REMUNERATION OF DIRECTORS

The following remuneration of directors is included in the aggregate payroll cost.

	1992 £000	1991 £000
Fees	**65**	62
Bonuses	**900**	54
Other remuneration	**2504**	1987
Payment to former director	—	146
	3469	2249

A long term bonus scheme has been introduced for executive directors with effect from 1st April 1991. The new scheme is based upon total shareholder return covering share price movement and dividends paid. Payment of the bonus will depend upon the performance of the company over a four year period in a league table of other leading companies operating in the retail and pharmaceutical industries. It provides for graduated payments in respect of the first three years and for the delayed payment of one half of the total bonus due until year seven, or normal retirement if earlier.

In addition the existing one year scheme based on earnings per share performance against budget continues but on a reduced scale.

An analysis of remuneration of directors (except where duties were discharged mainly outside the UK) is shown below, excluding pension contributions.

	1992 £000	1991 £000
Chairman	**159**	89
Previous chairman	—	73
Highest paid director (including bonuses of £186,000 (1991 £6,000))	**571**	343

	Number of directors 1992	Number of directors 1991
£570,001 — 575,000	**1**	—
£340,001 — 345,000	—	1
£310,001 — 315,000	**1**	—
£305,001 — 310,000	**2**	—
£235,001 — 240,000	**4**	—
£190,001 — 195,000	—	1
£170,001 — 175,000	—	1
£155,001 — 160,000	**1**	—
£150,001 — 155,000	—	1
£130,001 — 135,000	—	3
£100,001 — 105,000	**1**	—
£90,001 — 95,000	—	1
£85,001 — 90,000	—	1
£70,001 — 75,000	—	1
£40,001 — 45,000	—	2
£20,001 — 25,000	—	1
£15,001 — 20,000	**4**	3
£5,001 — 10,000	**1**	—
£1 — 5,000	**1**	—

Notes Relating to the Accounts

27 DIRECTORS' SHAREHOLDINGS

The beneficial interests of the directors and their families in the share capital of the company at 31st March 1992 are shown below.

Included under 'ordinary shares' are those held in trust under the company's profit sharing scheme. Details of the company's share option schemes are referred to in note 19. No director holds any loan capital.

	Ordinary shares		Ordinary shares under option			
	1992	1991*	1991	Granted during the year	Exercised during the year	1992
K Ackroyd	**35,076**	27,497	195,453	**77,500**	**5,211**	**267,742**
Sir Christopher Benson	**13,429**	13,044	—	—	—	—
Sir James Blyth	**11,230**	9,464	352,901	**169,725**	**150,000**	**372,626**
Dr E E Cliffe	**33,717**	31,694	133,534	—	**23,588**	**109,946**
P J Davis	**2,792**	—	—	—	—	—
A H Hawksworth	**22,717**	17,861	130,509	**67,225**	**17,767**	**179,967**
G M Hourston	**31,138**	28,728	178,495	**82,500**	—	**260,995**
The Baroness Oppenheim-Barnes	**2,476**	2,405	—	—	—	—
I M G Prosser	**1,072**	1,072	—	—	—	—
Sir Peter Reynolds	**3,385**	2,434	—	—	—	—
T G Richardson	**20,312**	15,838	179,833	**30,000**	**12,444**	**197,389**
M F Ruddell	**13,866**	8,429	112,874	**79,725**	**3,627**	**188,972**
G R Solway	**25,380**	22,857	123,389	**75,895**	**10,977**	**188,307**
D A R Thompson	**10,834**	9,288	138,495	**48,338**	—	**186,833**
R P Wilson	—	—	—	—	—	—

In addition Sir Peter Reynolds has a non-beneficial interest in 1,300 (1991 1,300) ordinary shares.

Directors' holdings on 3rd June 1992 are unchanged.

*or later date of appointment.

Auditors' Report

Report of the Auditors to the members of The Boots Company PLC.

We have audited the accounts on pages 32 to 54 in accordance with Auditing Standards.
In our opinion the accounts give a true and fair view of the state of affairs of the company and the group at 31st March 1992 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Peat Marwick
Chartered Accountants
Registered Auditor
Birmingham
3rd June 1992

Principal Companies

	Percentage held by parent	Percentage held by subsidiary undertakings	Country of incorporation where operating abroad	Principal activities
Parent				Manufacturing, marketing and distribution of pharmaceuticals and consumer products
The Boots Company PLC				
Subsidiary undertakings				
(incorporated and registered in England)				
A G Stanley Ltd.		100		Retailing of decorative products and interior furnishings
Boots Development Properties Ltd.		100		Property development
Boots Opticians Ltd.		100		Registered opticians
Boots Properties PLC	100			Property holding
Boots Print Ltd.	100			Print services
Boots The Chemists Ltd.	100			Retail chemists
Childrens World Ltd.	100			Retailing of goods and services for children
Crookes Healthcare Ltd.	100			Marketing consumer products
Farley Health Products Ltd.	100			Manufacturing consumer products
Halfords Ltd.		100		Retailing of car parts, accessories and bicycles and car servicing
Optrex Ltd.	100			Marketing consumer products
Ward White Group plc	100			Holding company
Subsidiary undertakings				
(incorporated overseas)				Activities refer to pharmaceutical and consumer products unless otherwise indicated
The Boots Company (Australia) Pty. Ltd.	100		Australia	Manufacturing and marketing
Boots Pharmaceuticals S.A. NV		100	Belgium	Marketing
Boots Pharmaceuticals Ltd.		100	Canada	Marketing
Boots Pharma S.A.	100		France	Manufacturing and marketing
Beaute, Hygiene et Soins, S.A.	100		France	Retailing of cosmetics and toiletries
Kanoldt Arzneimittel GmbH	5	95	Germany	Manufacturing and marketing
Boots Pharmaceuticals B.V.	100		The Netherlands	Marketing

Principal Companies

	Percentage held by parent	Percentage held by subsidiary undertakings	Country of incorporation where operating abroad	Principal activities
Subsidiary undertakings				
(incorporated overseas)—continued				
				Activities refer to pharmaceutical and consumer products unless otherwise indicated
Boots Pharmaceuticals Ltd.	40		India	Manufacturing and marketing
The Boots Company (Ireland) Ltd.	100		Ireland	Marketing
Boots Italia S.p.A.	100		Italy	Marketing
Boots Finance Ltd.	100		Jersey	Finance company
Boots Pharmaceuticals Ltd.		100	Kenya	Manufacturing and marketing
Optrex (Malaya) Sdn. Bhd.		100	Malaysia	Marketing
The Boots Company (New Zealand) Ltd.	100		New Zealand	Marketing
Boots Pharmaceuticals Ltd.	56·5		Pakistan	Manufacturing and marketing
Boots Pharmaceuticals (Philippines) Inc.	100		Philippines	Marketing
The Boots Company (Far East) Pte. Ltd.	100		Singapore	Marketing
Boots Pharmaceuticals (Pty.) Ltd.	100		South Africa	Manufacturing and marketing
Boots Pharmaceuticals S.A.	100		Spain	Manufacturing and marketing
The Boots Company (Thailand) Ltd.	100		Thailand	Marketing
Boots Pharmaceuticals Inc.		100	USA	Development, manufacturing and marketing of pharmaceuticals
Boots Pharmaceuticals PR, Inc.		100	USA	Manufacturing pharmaceuticals
Boots-Galenika d.o.o	51		Yugoslavia	Marketing

All percentages relate to holdings of ordinary share capital

The Boots group exercises a dominant influence over Boots Pharmaceuticals Ltd., India, which is therefore consolidated as a subsidiary undertaking.

	Issued share capital	Percentage held	Principal activities
Associated undertakings			
Do It All Limited (incorporated and registered in England)	200 ordinary shares	50	DIY retailer
	2000 cumulative redeemable preference shares	100	
	1A preference share	100	
	1B preference share	—	
BHC Company (partnership in Bishop, Texas USA)	—	50	Manufacturing pharmaceuticals

On 3rd April 1992 the capital of Do It All Limited was restructured resulting in the conversion of A and B preference shares into ordinary shares and the subscription of £24m by W H Smith for further ordinary shares so as to leave both parties owning 50% of the equity share capital.

All the companies operate principally in the country of incorporation, except Boots Pharmaceuticals PR, Inc. which operates in Puerto Rico.

Group Financial Record

	1992 £m	Restated 1991 £m	Restated 1990 £m	1989 £m	1988 £m
Turnover	**3655·7**	3565·3	3381·4	2704·4	2589·8
Profit on ordinary activities before taxation	**374·2**	349·2	356·5	306·7	257·6
Taxation	**(109·7)**	(109·0)	(112·1)	(96·8)	(75·9)
Profit on ordinary activities after taxation	**264·5**	240·2	244·4	209·9	181·7
Minority interests	**(1·5)**	(1·9)	(·6)	(·8)	(·7)
	263·0	238·3	243·8	209·1	181·0
Extraordinary items	**(15·8)**	19·6	(·9)	(5·7)	1·4
Profit attributable to shareholders	**247·2**	257·9	242·9	203·4	182·4
Dividends	**(126·4)**	(114·3)	(107·8)	(92·6)	(81·2)
Profit retained	**120·8**	143·6	135·1	110·8	101·2
Balance sheets					
Fixed assets	**1626·3**	1577·3	1551·2	1282·6	666·1
Investments	**57·5**	49·7	3·5	3·3	3·2
Net current assets/(liabilities)	**18·4**	(52·2)	(108·0)	393·5	358·1
Other creditors	**(230·6)**	(272·9)	(278·4)	(24·3)	(10·1)
Provisions for liabilities and charges	**(34·6)**	(31·1)	(37·1)	(16·4)	(18·5)
Net assets	**1437·0**	1270·8	1131·2	1638·7	998·8
Represented by:					
Shareholders funds	**1431·9**	1264·3	1129·6	1637·3	998·7
Minority interests	**5·1**	6·5	1·6	1·4	·1
	1437·0	1270·8	1131·2	1638·7	998·8
Earnings per share	**26·4p**	24·2p	25·4p	22·6p	19·6p
Dividend per share	**12·4p**	11·6p	11·0p	10·0p	8·8p
Dividend cover	**2·1**	2·1	2·3	2·3	2·2
Debt equity ratio	**25·3**	37·3	47·9	—	—
Interest cover	**9·7**	6·4	13·0	—	—
Profit on ordinary activities before taxation as % of shareholders funds	**26·1**	27·6	31·6	18·7	25·8
Profit on ordinary activities after taxation as % of shareholders funds	**18·5**	19·0	21·6	12·8	18·2

The debt equity ratio has been calculated as the percentage of net borrowing to shareholders funds. The 1991 and 1990 accounts have been restated for the change in treatment of the convertible capital bonds referred to in note 21 on page 49. 1990 includes goodwill written off on acquisitions of £660·8m. In 1989 a property revaluation surplus of £568·9m was recorded. Results for 1988 exclude an extra quarter's results arising from the change to coterminous accounting by overseas companies.

Divisional Financial Record

	1992 £m	1991 £m	1990 £m	1989 £m	1988 £m
Pharmaceuticals Division					
Turnover					
UK (including exports)	**362·1**	320·9	324·6	315·4	323·1
Overseas	**381·8**	346·4	293·8	244·5	235·6
Intra-divisional	**(44·7)**	(38·5)	(34·6)	(35·3)	(39·5)
	699·2	628·8	583·8	524·6	519·2
Trading profit					
UK	**24·8**	24·1	35·5	37·3	46·3
Overseas	**96·0**	91·0	75·6	58·0	55·5
	120·8	115·1	111·1	95·3	101·8
Capital expenditure	**44·5**	28·5	23·5	20·9	25·1
Boots The Chemists Division					
Turnover	**2471·8**	2360·6	2268·9	2084·0	1928·0
Trading profit	**246·2**	228·8	190·0	151·0	101·8
Capital expenditure	**62·7**	59·4	75·5	66·0	59·6
Retail Division					
Turnover					
UK	**565·6**	621·4	480·1	75·9	52·2
Overseas	**59·0**	59·8	59·2	145·2	225·0
	624·6	681·2	539·3	221·1	277·2
Trading profit					
UK	**(5·3)**	27·0	24·3	(2·9)	(2·8)
Overseas	—	·3	(·3)	1·5	(4·1)
	(5·3)	27·3	24·0	(1·4)	(6·9)
Capital expenditure	**20·2**	38·2	30·7	15·0	20·6
Property Division					
Turnover	**5·0**	·7	—	—	—
Trading profit					
Development	**3·5**	·2	—	—	—
Net rents	**51·3**	46·5	39·2	34·4	31·8
Profit from property sales	**14·7**	13·4	15·2	11·7	21·3
	69·5	60·1	54·4	46·1	53·1
Capital expenditure	**45·3**	38·7	21·4	16·0	14·2

Turnover of Pharmaceuticals Division includes sales to Boots The Chemists Division.

A change in the basis of pricing of goods sold by Pharmaceuticals Division to Boots The Chemists Division resulted in a reduction in Pharmaceuticals Division turnover of £21·7m and a transfer of profit of £11·4m to Boots The Chemists Division in 1989.

Results for 1988 exclude an extra quarter's results arising from the change to coterminous accounting by overseas companies.

The divisional financial record should be read in conjunction with the footnote to note 2a on page 37.

Financial Calendar

1992

4th June	Results and final dividend announced
23rd June	Report and accounts circulated
23rd July	Annual general meeting
21st August	Final dividend payable
12th November	Interim results and dividend announced

1993

5th February	Interim dividend payable

Capital gains tax

For capital gains tax purposes, market values on 31st March 1982 were as follows:

Ordinary shares of 25p each	112·5p
£100 7¾% loan stock	£62.50

Designed by Addison. Still life photography by Robin Broadbent. Portrait photography by Michael Heffernan. Printed by Boots Print Limited.